
COMPANY HISTORY AND REORGANIZATION

Overview

Our Company, through Asia Harbour, owns equity interest in Honghua Company and HH Egyptian Company. Honghua Company is our PRC operating subsidiary, and it owns equity interest in each of Youxin Company, Honghua International, Hongtian Company and Honghua America. Honghua Company, Youxin Company, Honghua International and Hongtian Company are PRC operating companies. Our offshore companies comprise Honghua America, Golden Coast Company and Lucky Wish. The Company, together with its subsidiaries, form the Group for Listing.

The Group is principally engaged in manufacturing drilling rigs, rig parts and components and in providing drilling-related training, as well as after-sales services, to its customers.

Prior to the Listing, the Group comprising our Company and its subsidiaries underwent a Reorganization, which steps are summarized as follows:-

1. Our Company was incorporated in the Cayman Islands with limited liability on June 15, 2007. It is owned by Ally Giant, the Financial Investors (namely Carlyle Funds, Vincera Group, DPF, IP Cathay, COOS) and Nabors International as to approximately 64.7%, 17.3% and 18% respectively immediately before the Listing.
2. Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. Its one subscriber share was subsequently taken up by Ally Giant which was wholly-owned by Ample Chance. For the purpose of the Reorganization, Asia Harbour acquired Honghua Company on August 24, 2006. In preparation for the Global Offering, the Company acquired Asia Harbour from Ally Giant and became the holding company of the Group on October 16, 2007.
3. Honghua Company was incorporated in the PRC as a limited liability company on December 31, 1997. It was initially owned by Honghua Industrial, Oil Drilling Plant and 12 individual shareholders. As an employee benefit offered by Oil Drilling Plant, 841 employees were offered the opportunity to invest in Honghua Company. Fu Chonglin represented the 841 employees and was registered as a shareholder holding an equity interest of approximately 37.5% in Honghua Company. In 2000, the employees of Oil Drilling Plant elected 11 representatives in lieu of Fu Chonglin, who transferred his entire equity interest in Honghua Company to these 11 representatives. In 2003, Mr. Zhang Mi, the Chairman of Honghua Company, and 22 other individual shareholders formed the Concert Group for the purpose of consolidating control of Honghua Company. In aggregate, the Concert Group held approximately 35.438% of Honghua Company's equity. There were several increases of registered capital as well as equity interest transfers between June 2000 and December 2005 that resulted in Honghua Company being 16.336% owned by Huasheng Oil Company and approximately 83.664% owned by 34 individual shareholders. In January 2006, Honghua Company reduced its registered capital and repurchased all of the equity interest held by the 11 registered shareholders in order to consolidate the control and ownership of the Concert Group in Honghua Company. In April 2006, in order to further consolidate control and ownership, Honghua Company reduced its registered capital again and entered into an equity buy-out arrangement with Huasheng Oil Company and its other shareholders. On June 28, 2006, Honghua Company was owned by 21 shareholders, 20 of whom were members of the Concert Group holding approximately 99.297% of Honghua Company's equity. On August 11, 2006, Honghua Company entered into a capital increase agreement with 20 members of the Concert Group and 14 other individuals for the purposes of expansion and development. For the purpose of the Reorganization in preparation for Listing, Asia Harbour acquired the entire interest in Honghua Company from the 34 individual shareholders on August 24, 2006. Honghua Company was then converted from a domestic enterprise into a wholly-foreign owned enterprise and was wholly-owned by Asia Harbour. After the completion of Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company.

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4. HH Egyptian Company was a joint venture company established in Egypt on April 24, 2007 pursuant to a joint venture agreement between Honghua Company, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company. Asia Harbour replaced Honghua Company and became a party to the joint venture agreement pursuant to a letter of declaration signed on January 8, 2007.
5. Honghua International was incorporated in the PRC as a limited liability company on January 13, 2004. It was initially 40% owned by Honghua Company and 60% owned by 20 individuals. There was an increase of registered capital in September 2005 and several transfers of equity interest from September 2005 to July 2006 resulting in Honghua International being 80% owned by Honghua Company and 20% owned by 13 individual shareholders. After completion of the Reorganization, Honghua International became an indirectly owned subsidiary of the Company.
6. Youxin Company was incorporated in the PRC as a limited liability company on August 7, 1998 and was initially owned by five individual shareholders. There were several increases in Youxin Company's registered capital and transfers of equity interests in Youxin Company from November 2000 to August 2006. Upon completion of the Reorganization, Youxin Company was 80% owned by Honghua Company and 20% owned by nine individual shareholders.
7. Honghua America was formed in the State of Texas in the United States as a limited partnership on October 11, 2004. It was initially 2% owned by NCE Management with the other 98% being owned by Sue Ann Ma. There was a series of transfers of equity interest in Honghua America from October 2004 to November 2006. In December 2006, Honghua America was converted to a limited liability company at which point it was 80% owned by Honghua Company and 20% owned by NCE Management Inc.
8. Hongtian Company was incorporated in the PRC as a limited liability company on June 6, 2001. It was initially owned entirely by 25 individual shareholders. There were several increases of registered capital and transfers of equity interest from July 2003 to August 2006. As of August 2006, Hongtian Company was 80% owned by Honghua Company and 20% owned by 12 individual shareholders. After completion of the Reorganization, Hongtian Company became an indirectly owned subsidiary of the Company.
9. Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006. It is wholly-owned by Honghua International.
10. Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. On December 5, 2005, one share was allotted to Liu Zhi on trust for Honghua International. As advised by our PRC legal advisor, King & Wood, approval from the relevant PRC commerce authorities would be required for the trust arrangement between Honghua International and Liu Zhi. As the said approval had not been obtained by the Company, the Company is currently taking steps to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations.

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Details of the equity interest transactions and shareholding structure of the Group are set out below.

Honghua Company

The history of the Group can be traced back to December 31, 1997, when Honghua Company was established as a limited liability company with a registered capital of RMB800,000. As of the date of its establishment, Honghua Company was owned approximately 22.150% by Honghua Industrial, approximately 11.075% by Oil Drilling Plant and approximately 66.775% by 12 individual shareholders. Details of the shareholdings are as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Industrial	22.150%
Oil Drilling Plant	11.075%
<u>12 Individual Shareholders</u>	
Fu Chonglin (付崇林)	37.500%
Zhang Mi (張弭)	4.976%
He Guangfu (何光福)	3.340%
Ren Jie (任杰)	3.051%
Zuo Huixian (左輝先)	2.844%
Zhang Zongyou (張宗友)	2.805%
Zhang Yanyong (張彥永)	2.561%
Zhang Xu (張旭)	2.400%
Fan Bing (范兵)	2.264%
Liu Xuetian (劉學田) (deceased)	2.049%
Chen Zongliang (陳宗良)	2.024%
Zhou Bing (周兵)	0.961%
Total:	100.000%

Honghua Industrial was a collectively-owned enterprise, established in the PRC on June 17, 1993, and was principally engaged in the processing, manufacturing, transportation and repair of oil equipment; drilling and oilfield construction, installation and technical design and advisory services; water and electricity equipment installation and repair; metal materials, construction materials, electrical and mechanical products; daily necessities, and wholesale foods. Honghua Industrial made its capital contribution in the sum of RMB177,200, being an approximately 22.150% equity interest in Honghua Company, by way of asset injection. The assets injected included equipment and machinery. Except for the above, Honghua Industrial did not transfer any of its business, assets or personnel to Honghua Company. Oil Drilling Plant was a state-owned enterprise, established in the PRC on December 28, 1993, and was principally engaged in manufacturing oil drilling equipment, appliances and accessories, and transportation of cargo.

Zhang Mi and 11 other individual shareholders were former colleagues and through their work together had established mutual trust and understanding. They decided to establish Honghua Company with Honghua Industrial and Oil Drilling Plant in order to build their investments in the oil drilling equipment industry.

As a benefit offered by Oil Drilling Plant, the employees of Oil Drilling Plant were offered through the trade union, the opportunity to invest in Honghua Company. 841 employees of Oil Drilling Plant collectively invested an aggregate of RMB300,000 in Honghua Company when Honghua Company was established in 1997. Fu Chonglin represented those 841 employees, holding an approximately 37.5% equity interest in Honghua Company. Fu Chonglin was then registered as a shareholder of Honghua Company with the relevant Administration of Industry and Commerce in order to enable those employees of Oil Drilling Plant, as investors

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of Honghua Company, to comply with the requirements of the PRC Company Law, which restrict the number of shareholders of a limited company to no more than 50. Fu Chonglin is an Independent Third Party. Except for Fu Chonglin, all the other individual shareholders, namely Zhang Mi, He Guangfu, Ren Jie, Zuo Huixian, Zhang Zongyou, Zhang Yanyong, Zhang Xu, Fan Bing, Liu Xuetian (deceased), Chen Zongliang and Zhou Bing (collectively and excluding Fu Chonglin, the “Initial Individual Shareholders”) held their equity interests for themselves and were members of the Concert Group formed on June 19, 2003. Seven of the Initial Individual Shareholders, namely Zhang Mi, Ren Jie, Zuo Huixian, Zhang Yanyong, Zhang Xu, Fan Bing and Zhou Bing, remain shareholders of the Group.

The Company’s PRC legal advisor, King & Wood, has advised us that:

According to China’s currently enforceable laws, regulations, rules and interpretations, “illegal fund raising activity” is the conduct of raising funds from the public without approval from the governmental authorities and it usually contains the following fundamental legal characteristics:

- (1) Obtaining no approvals from relevant governmental departments which have the authority to approve, obtaining approvals from governmental departments which have no authority to approve, or obtaining approvals from governmental departments which are acting ultra-vires in giving the approval;
- (2) Giving warranties to repay the subscribers, either in cash or in kind;
- (3) Raising funds from unspecified people, i.e. the public; and
- (4) Covering the illegal characteristics of the conduct by using a legal format.

As the 841 employees of Oil Drilling Plant were represented by Fu Chonglin who was registered as one of the shareholders of Honghua Company, the 841 employees were not unspecified people as referred to in above (3). Since the investment was an employee benefit given by Oil Drilling Plant, Honghua Company’s acceptance of the arrangements by its shareholder, Oil Drilling Plant, does not constitute an “illegal fund raising activity” or violate any compulsory requirements under applicable PRC laws.

On June 18, 2000, a shareholders’ resolution was passed to increase the registered capital of Honghua Company from RMB800,000 to RMB4,080,000 for the purpose of expansion of scale and production.

On September 16, 2000, Honghua Industrial entered into a transfer agreement with Song Shuqing, Deng Meng, Yuan Guiqi and the Initial Individual Shareholders, pursuant to which Honghua Industrial agreed to transfer approximately 8.860%, 4.430%, 4.430% and 4.430% equity interest in Honghua Company, respectively, to each of Song Shuqing, Deng Meng, Yuan Guiqi and the Initial Individual Shareholders ((Zhang Mi (approximately 0.753%), Ren Jie (approximately 0.462%), Zhang Xu (approximately 0.363%), Zhang Yanyong (approximately 0.387%), Zuo Huixian (approximately 0.430%), Liu Xuetian (deceased) (approximately 0.310%), Fan Bing (approximately 0.343%), Zhou Bing (approximately 0.146%), He Guangfu (approximately 0.506%), Chen Zongliang (approximately 0.306%) and Zhang Zongyou (approximately 0.425%)) for considerations of RMB70,880, RMB35,440, RMB35,440 and RMB35,440, which considerations were determined with reference to their capital contributions to the then existing registered capital of Honghua Company. The Initial Individual Shareholders paid the said RMB35,440 in proportion to the equity interests they acquired from Honghua Industrial. Song Shuqing, Deng Meng and Yuan Guiqi are Independent Third Parties. Upon completion of the said equity transfers, Honghua Industrial ceased to own any equity interest in Honghua Company.

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On the same date, Oil Drilling Plant entered into a transfer agreement with Deng Meng and Yuan Guiqi, pursuant to which Oil Drilling Plant agreed to transfer to each of Deng Meng and Yuan Guiqi half of its equity interest in Honghua Company. Upon completion of the said equity transfers, Oil Drilling Plant ceased to own any equity interest in Honghua Company.

In June 2000, employees of Oil Drilling Plant elected 11 individuals, namely Huang Dequan (黃德全), Wang Yaixin (王堯鑫), Li Yan (李燕), Chen Zhenghua (陳正華), Shi Shuming (石述明), Wang Wei (王偉), Zhou Tao (周濤), Ni Xiurong (倪修榮), Yang Xuefeng (楊學鋒), Yang Yuanchun (陽遠春) and Yu Zhenghua (余正華), in lieu of Fu Chonglin as their representatives. On September 16, 2000, Fu Chonglin transferred all his equity interest in Honghua Company to these 11 representatives (as to approximately 5.881% to Huang Dequan, 5.425% to Wang Yaixin, 4.538% to Li Yan, 4.281% to Chen Zhenghua, 4.238% to Shi Shuming, 3.281% to Wang Wei, 2.694% to Zhou Tao, 2.388% to Ni Xiurong, 1.988% to Yang Xuefeng, 1.588% to Yang Yuanchun and 1.200% to Yu Zhenghua, respectively). Wang Yaixin is a Non-executive Director, and the other ten individuals are Independent Third Parties.

The Company recognised only these 11 representatives (and not the 728 employees other than the said 11 representatives) as registered shareholders under PRC law. The management of Honghua Company was responsible for the registration of these 11 representatives as the registered shareholders with the relevant authority. The Company was neither required to keep, nor did it possess, any information as to whether these 11 shareholders acted on their own accord and at their own discretion, or at the direction of third parties. The Company has no information on, and was not required to inquire into, whether the said employees of Oil Drilling Plant actually directed these 11 shareholders how to vote at any shareholders' meetings of Honghua Company.

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The 25 individual shareholders contributed RMB3,280,000, towards an increase in the registered capital of Honghua Company. On December 28, 2000, a new business license was issued by the Administration of Industry and Commerce of Siuchan, Guanghan concerning such increase in the registered capital. Upon completion of the said equity transfers and capital increase, Honghua Company was owned by the 25 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Initial Individual Shareholders</i>	
Zhang Mi	5.729%
He Guangfu	3.845%
Ren Jie	3.513%
Zuo Huixian	3.274%
Zhang Yanyong	2.949%
Zhang Zongyou	3.230%
Zhang Xu	2.763%
Fan Bing	2.606%
Liu Xuetian (deceased)	2.359%
Chen Zongliang	2.330%
Zhou Bing	1.107%
Sub-total:	33.705%
<i>Other shareholders</i>	
Deng Meng	9.968%
Yuan Guiqi	9.968%
Song Shuqing	8.860%
Huang Dequan	6.089%
Wang Yaoxin	5.362%
Chen Zhenghua	4.401%
Li Yan	4.243%
Shi Shuming	4.095%
Wang Wei	3.386%
Zhou Tao	2.674%
Ni Xiurong	2.460%
Yang Xuefeng	1.965%
Yu Zhenghua	1.223%
Yang Yuanchun	1.601%
Sub-total:	66.295%
Total:	100.000%

On April 6, 2002, Song Shuqing agreed to transfer all his equity interest in Honghua Company to Huasheng Oil Company. Upon completion of the said equity transfer, Huasheng Oil Company owned an approximately 8.860% equity interest in Honghua Company, while the other 24 individual shareholders owned the remaining approximately 91.140% equity interest. Huasheng Oil Company was a collectively-owned enterprise, established by the Labour Union of Sichuan Oil Management Bureau (四川石油管理局工會), in the PRC on October 4, 1993. It was principally engaged in investment and asset management, provision of oil related economic and technology consultation advice, tenancy and retail and wholesale of commodities. Except for its shareholding in Honghua Company, Huasheng Oil Company is an Independent Third Party.

On April 28, 2002, Deng Meng and Yuan Guiqi agreed to transfer an approximately 7.966% equity interest in Honghua Company to Huasheng Oil Company. Upon completion of the said transfer, the equity interest held by Huasheng Oil Company in Honghua Company increased to approximately 16.826%.

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On April 28, 2002, shareholders' resolutions were passed (i) to increase the registered capital of Honghua Company, from RMB4,080,000 to RMB10,505,550, for Honghua Company's expansion and development, and (ii) to approve the additional capital contributions from Honghua Company's risk liability fund, surplus reserve fund and undistributed profit, as to RMB122,220, RMB2,101,110 and RMB4,202,220, respectively. According to King & Wood, our PRC legal advisor, the capital increase from Honghua Company's risk liability fund, surplus reserve fund and undistributed profit, as approved by shareholders' resolutions, was not contrary to the relevant PRC laws and regulations at the relevant times.

On June 22, 2002, a shareholders' resolution was passed to approve various equity transfers among shareholders between 2001 and 2002. Details of the equity transfers are as follows :

Date of the agreement	Transferor	Transferee	Approximate equity interest transferred
June 20, 2002	Huang Dequan	Xing Manrong	6.0395%
April 28, 2002	Chen Zhenghua	Liu Chuanjun	4.4009%
March 11, 2001	Wang Wei	Zhi Rongmu	3.3860%
June 20, 2002	Li Yan	Zhou Tao	0.1171%
June 20, 2002	Huang Dequan	Shi Shuming	0.0450%
June 20, 2002	Liu Chuanjun	Zhi Rongmu	0.0390%
June 20, 2002	Yu Zhenghua	Zhi Rongmu	0.0380%
June 20, 2002	Wang Yaoxin	Zhi Rongmu	0.0260%
June 20, 2002	Wang Yaoxin	Yang Xuefeng	0.0156%
June 20, 2002	Wang Yaoxin	Zhou Tao	0.0086%
June 20, 2002	Huang Dequan	Zhou Tao	0.0040%

Upon completion of the said equity transfers, Huang Dequan, Wang Wei and Chen Zhenghua ceased to own any equity interest in Honghua Company. Zhi Rongmu, Liu Chuanjun and Xing Manrong, the new registered shareholders of Honghua Company, were elected by the employees of Oil Drilling Plant to represent them and replace Wang Wei, Chen Zhenghua and Huang Dequan respectively.

Honghua Company filed the increase of registered capital to RMB10,505,550 with the Administration of Industry and Commerce of Sichuan, Guanghan, in late 2002. On January 29, 2003, a new business license reflecting the increase in the registered capital of Honghua Company was issued by the Administration of Industry and Commerce of Sichuan, Guanghan. Upon completion of the said capital increase and equity transfers, Honghua Company was owned approximately 16.336% by Huasheng Oil Company and 83.664% by 37 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Initial Individual Shareholders</i>	
Zhang Mi	5.563%
He Guangfu	3.734%
Ren Jie	3.411%
Zuo Huixian	3.179%
Zhang Zongyou	3.136%
Zhang Yanyong	2.863%
Zhang Xu	2.683%
Fan Bing	2.530%
Liu Xuetian (deceased)	2.290%
Chen Zongliang	2.262%
Zhou Bing	1.075%
Sub-total:	32.726%

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Shareholder	Approximate equity interest
<i>Other shareholders</i>	
Deng Meng	5.811%
Yuan Guiqi	5.811%
Wang Yaoxin	5.158%
Shi Shuming	4.020%
Li Yan	4.006%
Zhou Tao	2.723%
Ni Xiurong	2.388%
Yang Xuefeng	1.923%
Yang Yuanchun	1.554%
Yu Zhenghua	1.151%
Sub-total:	34.545%
<i>New Shareholders</i>	
Xing Manrong (幸滿容)	5.864%
Liu Chuanjun (劉傳俊)	4.235%
Zhi Rongmu (支榮模)	3.388%
Liu Zhi (劉智)	0.970%
Tang Ying (唐穎)	0.194%
Zheng Yong (鄭勇)	0.194%
Ao Pei (敖沛)	0.194%
Tian Diyong (田弟勇)	0.194%
Lu Lan (呂蘭)	0.194%
Chen Jun (陳俊)	0.194%
Li Hanqiang (李漢強)	0.194%
Shen Dingjian (沈定建)	0.121%
Wang Jiangyang (王江陽)	0.114%
Liu Yingguo (劉映國)	0.114%
Liu Lulu (劉露璐)	0.114%
Tian Yu (田雨)	0.114%
Sub-total:	16.392%
Total:	83.664%

Liu Zhi, Tang Ying, Zheng Yong, Ao Pei, Tian Diyong, Lu Lan, Chen Jun, Li Hanqiang, Shen Dingjian, Wang Jiangyang, Liu Yingguo, Liu Lulu and Tian Yu were core operational, management and technical personnel of Honghua Company. Having a personal stake in Honghua Company would motivate these personnel to optimise their performance and efficiency and retain them for the long-term growth and profitability of Honghua Company.

On March 29, 2003, shareholders' resolutions were passed to further increase the registered capital of Honghua Company from RMB10,505,550 to RMB21,011,100 for Honghua Company's expansion and development and to approve the increase of the registered capital by way of surplus reserve fund and undistributed profit. The shareholders contributed to the increase in registered capital of Honghua Company in proportion to their shareholdings. On June 19, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in the registered capital.

For the purpose of better management and operation and stable development of Honghua Company, Zhang Mi, the chairman of Honghua Company (who had been a shareholder of Honghua Company since its establishment) and 22 other individual shareholders, namely Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo, Liu Lulu, He Guangfu, Zhang Zongyou and Chen Zongliang, all being core operational, management or technical personnel of Honghua Company entered

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into an oral agreement (the “Oral Agreement”) on June 19, 2003, pursuant to which they formed the Concert Group, with the intention of consolidating the control of Honghua Company. The Concert Group in total held an approximately 35.438% equity interest in Honghua Company at that time.

On October 31, 2003, various individual shareholders entered into equity transfer agreements to dispose of their equity interests in Honghua Company. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Transferee</u>	<u>Approximate equity interest transferred</u>
Xing Manrong	Yu Zhenghua	0.040%
	Li Yan	0.038%
	Zhi Rongmu	0.019%
	Shi Shuming	0.001%
Shi Shuming	Tian Diyong	0.019%
	Xing Manrong	0.011%
	Wang Yaoxin	0.006%
Wang Yaoxin	Shen Dingjian	0.019%
	Zhou Tao	0.019%
	Tang Ying	0.019%
	Lu Lan	0.013%
	Shi Shuming	0.013%
	Zhi Rongmu	0.007%
	Li Yan	0.019%
Yang Yuanchun	Li Yan	0.019%
Yu Zhenghua	Liu Chuanjun	0.019%
Yang Xuefeng	Zheng Yong	0.019%
Ni Xiurong	Wang Yaoxin	0.019%
Li Yan	Shi Shuming	0.019%
Liu Chuanjun	Zhi Rongmu	0.019%

The said equity transfers were not filed with the Administration of Industry and Commerce of Sichuan, Guanghan at the relevant time. On December 25, 2005, shareholders’ resolutions were passed to approve the equity transfers and to increase the registered capital by capitalization of the profit for the year of 2002. As such, the equity interests transferred were doubled. The equity transfers were subsequently filed with the Administration of Industry and Commerce of Sichuan, Guanghan and completed on February 17, 2006.

Details of the Acting In Concert Arrangement are set out below in the sub-section entitled “Ownership Continuity and Control”.

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On December 1, 2005, three members of the Concert Group, He Guangfu, Chen Zongliang and Zhang Zongyou, agreed to transfer all their equity interests, in aggregate approximately 9.132%, in Honghua Company, to other members of the Concert Group, leaving Zhang Mi and 19 others members of the Concert Group. He Guangfu, Chen Zongliang and Zhang Zongyou agreed to dispose of their interests in Honghua Company as part of their retirement from Honghua Company. On the same date, further various equity transfers occurred between the individual shareholders, and all the transfers of equity interests were completed on February 17, 2006. Details of the equity transfers are as follows:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
He Guangfu	Zheng Yong	784,480.00	3.734%
Zhang Zongyou	Zhang Mi	3,861,739.31	3.136%
Chen Zongliang	Zhang Mi	2,786,135.71	2.262%
Zhi Rongmu	Ren Jie	47,080.00	0.224%
	Ao Pei	37,175.00	0.177%
	Zhou Tao	31,860.00	0.152%
	Wang Jiangyang	10,615.00	0.051%
	Liu Zhi	10,000.00	0.048%
	Lu Lan	2,650.00	0.013%
Liu Chuanjun	Fan Bing	23,895.00	0.114%
	Ao Pei	17,965.00	0.086%
	Zhi Rongmu	7,965.00	0.038%
	Wang Jiangyang	7,965.00	0.038%
	Zuo Huixian	7,965.00	0.038%
	Zheng Yong	7,965.00	0.038%
Yang Xuefeng	Zheng Yong	7,965.00	0.038%
	Fan Bing	5,315.00	0.025%
	Xing Manrong	5,000.00	0.024%
	Wang Yaoxin	2,650.00	0.013%
Zhou Tao	Ren Jie	17,580.00	0.084%
	Zhang Yanyong	15,930.00	0.076%
	Fan Bing	15,930.00	0.076%
	Yang Yuanchun	7,965.00	0.038%
	Tian Diyong	7,965.00	0.038%
	Wang Yaoxin	2,000.00	0.010%
Ni Xiurong	Wang Yaoxin	7,965.00	0.038%
	Zhou Tao	7,965.00	0.038%
	Lu Lan	7,965.00	0.038%
Yu Zhenghua	Zhang Xu	7,965.00	0.038%
	Ao Pei	7,965.00	0.038%
Yang Yuanchun	Wang Jiangyang	27,965.00	0.133%
	Liu Chuanjun	15,930.00	0.076%
	Ren Jie	15,930.00	0.076%
	Lu Lan	7,965.00	0.038%
Wang Yaoxin	Lu Lan	35,000.00	0.167%
	Wang Jiangyang	28,895.00	0.138%
	Liu Chuanjun	10,000.00	0.048%
	Ren Jie	7,965.00	0.038%
	Tang Ying	7,965.00	0.038%
	Liu Zhi	5,000.00	0.024%
	Shi Shuming	2,900.00	0.014%
	Zhou Tao	1,500.00	0.007%

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Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Shi Shuming	Tian Diyong	15,930	0.076%
	Wang Jiangyang	15,930	0.076%
	Zhou Bing	14,180	0.067%
	Liu Zhi	7,965	0.038%
	Zhang Yanyong	2,665	0.013%
	Zhi Rongmu	2,650	0.013%
Li Yan	Liu Chuanjun	15,930	0.076%
	Tian Yu	15,930	0.076%
	Ren Jie	14,060	0.067%
	Zhi Rongmu	7,965	0.038%
	Zhou Bing	7,965	0.038%
	Shi Shuming	3,315	0.016%
	Wang Jiangyang	2,000	0.010%
Xing Manrong	Zhi Rongmu	23,895	0.114%
	Yang Yuanchun	20,000	0.095%
	Liu Zhi	18,500	0.088%
	Ren Jie	18,580	0.088%
	Wang Yaoxin	3,765	0.018%
	Ni Xiurong	2,917	0.014%
	Liu Chuanjun	1,200	0.006%

On December 4, 2005, Zhou Tao agreed to transfer approximately 0.038% equity interest in Honghua Company to Liu Xuetian (deceased).

Upon completion of the said equity transfers on February 17, 2006, Honghua Company was owned as to approximately 16.336% by Huasheng Oil Company and approximately 83.664% by 34 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Concert Group</i>	
Zhang Mi	10.960%
Zheng Yong	4.042%
Ren Jie	3.988%
Zuo Huixian	3.217%
Zhang Yanyong	2.951%
Fan Bing	2.745%
Zhang Xu	2.721%
Liu Xuetian (deceased)	2.328%
Zhou Bing	1.180%
Liu Zhi	1.168%
Wang Jiangyang	0.559%
Ao Pei	0.495%
Lu Lan	0.474%
Tian Diyong	0.346%
Chen Jun	0.194%
Li Hanqiang	0.194%
Tian Yu	0.190%
Shen Dingjian	0.159%
Liu Yingguo	0.114%
Liu Lulu	0.114%
Sub-total:	38.139%

COMPANY HISTORY AND REORGANIZATION

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Other shareholders</i>	
Deng Meng	5.811%
Yuan Guiqi	5.811%
Xing Manrong	5.288%
Wang Yaoxin	4.635%
Liu Chuanjun	4.089%
Li Yan	3.762%
Shi Shuming	3.761%
Zhi Rongmu	3.016%
Zhou Tao	2.599%
Ni Xiurong	2.251%
Yang Xuefeng	1.786%
Yang Yuanchun	1.327%
Yu Zhenghua	1.118%
Tang Ying	0.270%
Sub-total:	45.524%
Total:	83.664%

As of December 31, 2005, 728 employees of Oil Drilling Plant through 11 representatives had invested an aggregate of RMB7,066,615 in Honghua Company. After various shareholding changes and capital increases as described above, as of December 31, 2005, the 11 representatives of the said 728 employees, namely, Xing Manrong, Wang Yaoxin, Liu Chuanjun, Shi Shuming, Li Yan, Zhi Rongmu, Zhou Tao, Ni Xiurong, Yang Xuefeng, Yang Yuanchun and Yu Zhenghua, were registered as shareholders of Honghua Company, together holding an approximately 33.632% equity.

On January 7, 2006, a shareholders' resolution was passed to reduce the registered capital of Honghua Company, from RMB21,011,100 to RMB13,944,485, to consolidate the control and ownership of the Concert Group in Honghua Company. Honghua Company entered into an equity repurchase agreement with 11 individual shareholders, on January 12, 2006, pursuant to which Honghua Company repurchased all the equity interest held by the 11 registered shareholders, at a consideration of RMB7.077 per share, which was determined with reference to the audited net asset value of Honghua Company of RMB94,560,000 as of June 30, 2005, plus a premium of approximately 57.27%. The consideration was arrived at after arm's length negotiations between the parties. Details of the equity repurchases are as follows:

<u>Transferor</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Xing Manrong	6,513,016.81	5.288%
Wang Yaoxin	5,708,957.75	4.635%
Liu Chuanjun	5,036,022.64	4.089%
Li Yan	4,633,360.09	3.762%
Shi Shuming	4,632,598.10	3.761%
Zhi Rongmu	3,714,824.07	3.016%
Zhou Tao	3,200,814.43	2.599%
Ni Xiurong	2,771,698.40	2.251%
Yang Xuefeng	2,199,301.48	1.786%
Yang Yuanchun	1,634,008.84	1.327%
Yu Zhenghua	1,377,065.63	1.118%

COMPANY HISTORY AND REORGANIZATION

On April 26, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan, reflecting the capital reduction and equity repurchase. The registered capital of Honghua Company was thereby reduced from RMB21,011,100 to RMB13,944,485, and Honghua Company was then owned approximately 24.615% by Huasheng Oil Company and approximately 75.385% by 23 individual shareholders, as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Concert Group</i>	
Zhang Mi	16.515%
Zheng Yong	6.090%
Ren Jie	6.008%
Zuo Huixian	4.847%
Zhang Yanyong	4.447%
Fan Bing	4.137%
Zhang Xu	4.100%
Liu Xuetian (deceased)	3.508%
Zhou Bing	1.778%
Liu Zhi	1.760%
Wang Jiangyang	0.842%
Ao Pei	0.745%
Lu Lan	0.715%
Tian Diyong	0.521%
Chen Jun	0.293%
Li Hanqiang	0.293%
Tian Yu	0.286%
Shen Dingjian	0.240%
Liu Yingguo	0.172%
Liu Lulu	0.172%
Sub-total:	57.468%
<i>Other shareholders</i>	
Deng Meng	8.755%
Yuan Guiqi	8.755%
Tang Ying	0.407%
Sub-total:	17.917%
Huasheng Oil Company	24.615%
Total:	100%

Upon completion of the capital reduction, the Concert Group's equity interest in Honghua Company increased, from approximately 38.139% to approximately 57.468%.

On April 25, 2006, shareholders' resolutions were passed to reduce the registered capital of Honghua Company, from RMB13,944,485 to RMB8,070,305, to further consolidate control and ownership of the Concert Group in Honghua Company. Honghua Company entered into an equity buy-out agreement with Huasheng Oil Company, Deng Meng and Yuan Guiqi, on May 22, 2006, pursuant to which Honghua Company repurchased all the equity interest held by Huasheng Oil Company, Deng Meng and Yuan Guiqi (approximately 24.615%, 8.755% and 8.755% respectively), at a consideration of RMB5.466 per share, which was determined with reference to the net asset value of Honghua Company as of March 31, 2006, according to Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司). The consideration was arrived at after arm's length negotiations between the parties. The consideration per share for the equity repurchase in April, 2006 was lower than that of January, 2006 because the shareholders of Honghua Company agreed to bear the individual income tax for those individual shareholders for the equity repurchases of January, 2006 but not for those of April, 2006. For the equity repurchases in January, 2006, the shareholders received the consideration net

COMPANY HISTORY AND REORGANIZATION

of individual income tax; whereas for the equity repurchases in April, 2006, Honghua Company did not pay such individual income tax. Huasheng Oil Company disposed of its equity interest in Honghua Company in order to concentrate its resources and investments in oil resources-related industries, e.g. natural gas. Huasheng Oil Company, Deng Meng and Yuan Guiqi disposed of their entire equity interests in Honghua Company in order to liquidate their investments and to support the corporate restructuring for the proposed listing of our Group.

On June 28, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the capital reduction and share repurchases. The registered capital of Honghua Company was thereby reduced, from RMB13,944,485 to RMB8,070,305, and Honghua Company was owned by 21 individual shareholders, as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Concert Group</i>	
Zhang Mi	28.536%
Zheng Yong	10.522%
Ren Jie	10.382%
Zuo Huixian	8.375%
Zhang Yanyong	7.684%
Fan Bing	7.147%
Zhang Xu	7.084%
Liu Xuetian (deceased)	6.061%
Zhou Bing	3.072%
Liu Zhi	3.042%
Wang Jianguang	1.454%
Ao Pei	1.287%
Lu Lan	1.235%
Tian Diyong	0.900%
Chen Jun	0.506%
Li Hanqiang	0.506%
Tian Yu	0.495%
Shen Dingjian	0.415%
Liu Yingguo	0.297%
Liu Lulu	0.297%
Sub-total:	99.297%
<i>Other shareholder</i>	
Tang Ying	0.703%
Total:	100.000%

Upon completion of the capital reduction, the Concert Group's equity interest in Honghua Company increased, from approximately 57.468% to approximately 99.297%.

COMPANY HISTORY AND REORGANIZATION

On August 11, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company, from RMB8,070,305 to RMB18,750,000, for Honghua Company's expansion and development. On the same date, Honghua Company entered into a capital increase agreement with 20 members of the Concert Group and 14 other individuals. Details of the shareholding in Honghua Company after the capital increase are as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
<i>Concert Group</i>	
Zhang Mi	36.000%
Ren Jie	7.894%
Zheng Yong	5.600%
Liu Zhi	5.600%
Zuo Huixian	4.373%
Zhang Xu	4.213%
Fan Bing	4.160%
Liu Xuetian (deceased)	3.733%
Zhang Yanyong	3.707%
Zhou Bing	2.032%
Wang Jiangyang	1.067%
Chen Jun	0.943%
Ao Pei	0.703%
Lu Lan	0.681%
Tian Yu	0.410%
Li Hanqiang	0.367%
Tian Diyong	0.363%
Shen Dingjian	0.285%
Liu Yingguo	0.160%
Liu Lulu	0.128%
Sub-total:	82.419%
<i>Other shareholders</i>	
Zhang Cong	4.550%
Yang Hong	3.192%
Zhao Ping	2.485%
Luo Qiping	1.600%
Liu Gangqiang	0.960%
Di Xiaohong	0.917%
Ma Limin	0.875%
Xu Chuan	0.763%
Chen Zhen	0.720%
Liu Yonghong	0.667%
Tang Ying	0.319%
Tian Daoyun	0.213%
Di Baiwei	0.160%
Li Ping	0.160%
Sub-total:	17.581%
Total:	100.000%

Except for Zhang Cong who is the brother of Zhang Mi and a director holding a 9% equity interest in Hongtian Company and Zhao Ping who is a director holding a 4.799% equity interest in Youxin Company, the other 12 non-Concert Group shareholders are Independent Third Parties. These new shareholders are important members of management and represent a core group of technicians of Honghua Company. The Directors believe that having a personal stake in Honghua Company will motivate these personnel to optimise their performance and efficiency and retain them for the long-term growth and profitability of Honghua Company.

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On August 17, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan, reflecting the increase of registered capital.

On August 24, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company from RMB18,750,000 to RMB72,000,000 for the purpose of the Listing and in order to enjoy the benefits provided to foreign-invested enterprises under Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) promulgated on August 8, 2006. Further to the shareholders' resolutions and for the purpose of the Reorganization, Asia Harbour entered into an equity purchase and capital increase agreement with 34 individual shareholders on August 24, 2006. Pursuant to this agreement, Asia Harbour acquired the entire equity interest in Honghua Company from the 34 individual shareholders at a total consideration of U.S. dollars equivalent to RMB155,000,000. The consideration was determined with reference to an independent valuation of the net asset value of Honghua Company as of July 31, 2006 by Beijing Zhongkehua Certified Public Accountants Co., Ltd. (北京中科華會計師事務所有限公司) plus the cash capital contribution made by the shareholders at the time, pursuant to the shareholders' resolutions of Honghua Company dated August 11, 2006. On August 24, 2006, Asia Harbour, as sole shareholder, appointed its directors, Zhang Mi, Ren Jie, Zhang Xu, Wang Yaixin, Liu Zhi and Zheng Yong members of the board of directors of Honghua Company with immediate effect.

COMPANY HISTORY AND REORGANIZATION

The consideration paid to each shareholder is as follows :

<u>Shareholder</u>	<u>Consideration (RMB)</u>
Zhang Mi	55,800,000
Ren Jie	12,235,700
Liu Zhi	8,680,000
Zheng Yong	8,680,000
Zhang Cong	7,052,500
Zuo Huixian	6,778,150
Zhang Xu	6,530,150
Fan Bing	6,448,000
Liu Xuetian (deceased)	5,786,150
Zhang Yanyong	5,745,850
Yang Hong	4,947,600
Zhao Ping	3,851,750
Zhou Bing	3,149,600
Luo Qiping	2,480,000
Wang Jiangyang	1,653,850
Liu Gangqiang	1,488,000
Chen Jun	1,461,650
Di Xiaohong	1,421,350
Ma Limin	1,356,250
Xu Chuan	1,182,650
Chen Zhen	1,116,000
Ao Pei	1,089,650
Lu Lan	1,055,550
Liu Yonghong	1,033,850
Tian Yu	635,500
Li Hanqiang	568,850
Tian Diyong	562,650
Tang Ying	494,450
Shen Dingjian	441,750
Tian Daoyun	330,150
Di Baiwei	248,000
Li Ping	248,000
Liu Yingguo	248,000
Liu Lulu	198,400
Total:	155,000,000

Asia Harbour also contributed U.S. dollars equivalent to RMB53,250,000, as an increase in the registered capital of Honghua Company.

Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. At the time Asia Harbour agreed to acquire the equity interest in Honghua Company from the 34 shareholders (including the Concert Group) on August 24, 2006, Asia Harbour was wholly-owned by Ally Giant, which in turn was wholly-owned by Ample Chance, which in turn was owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, all BVI-incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate shareholders of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

COMPANY HISTORY AND REORGANIZATION

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by Ren Jie, Liu Zhi and Zheng Yong, as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by Liu Xuetian (deceased), Zhou Bing, Di Xiahong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong. Among these named individual shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu. For details of the Concert Group, please refer to the sub-section entitled “Concert Group” below.

Upon completion of the equity transfer on September 15, 2006, Honghua Company was converted from a domestic enterprise into a wholly-foreign owned enterprise and was owned as to 100% by Asia Harbour. A business license was issued by the Administration of Industry and Commerce of Sichuan, Deyang on September 15, 2006 reflecting its conversion into a wholly-foreign owned enterprise and the increase of the registered capital. Honghua Company’s entire registered capital increase of RMB72,000,000 was paid up on December 12, 2006. A business license was issued by the Administration of Industry and Commerce of Sichuan, Deyang on December 12, 2006 reflecting the full payment of additional registered capital. After completion of the Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company. King & Wood, our PRC legal advisors have confirmed that the conversion of Honghua Company into a wholly foreign-owned enterprise by December 2006 ensures its compliance with applicable PRC laws and regulations.

Youxin Company

Youxin Company was established as a limited liability company with a registered capital of RMB400,000 on August 7, 1998. As at the date of establishment, Youxin Company was owned by Lin Ning (林寧), Zhao Ping (趙平), Liu Hongbin (劉洪賓), Yang Renkui (楊仁奎) and Dai Huayin (代華銀) as to 20% each. These five shareholders were former friends and had established mutual trust and understanding. They decided to establish Youxin Company for their own investment in the oil drilling equipment industry and were employees of Youxin Company. Dai Huayin is the brother-in-law of Zhang Mi. Liu Hongbin is the father of Liu Zhi and the other shareholders are Independent Third Parties.

On November 6, 2000, a shareholders’ resolution was passed to increase the registered capital of Youxin Company from RMB400,000 to RMB1,080,000 for expansion and development. Four individual shareholders, Lin Ning, Zhao Ping, Liu Hongbin and Dai Huayin, each contributed RMB120,000 to the said increase of the registered capital. Yang Renkui did not make any additional contribution. Yang Wenjun (楊文君), an employee of Youxin Company, contributed RMB200,000 as a private investment in the oil drilling equipment industry. On November 20, 2000, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting this increase. Upon completion of the capital increase, Lin Ning, Zhao Ping, Liu Hongbin, Yang Renkui, Dai Huayin and Yang Wenjun owned approximately 18.519%, 18.519%, 18.519%, 7.407%, 18.519% and 18.519% equity interest in Youxin Company, respectively. Yang Wenjun is an Independent Third Party.

On November 1, 2002, Yang Wenjun agreed to transfer approximately 2.963% and 15.556% equity in Youxin Company to Zhao Ping and Zhang Mi for consideration of RMB32,000 and RMB168,000, respectively. The consideration was determined with reference to the capital contributions made by Yang Wenjun to the registered capital of Youxin Company.

COMPANY HISTORY AND REORGANIZATION

On the same date, Yang Renkui agreed to transfer approximately 7.407% equity interest in Youxin Company to Zhao Ping at a consideration of RMB80,000. The consideration was determined with reference to Yang Renkui's capital contribution to the registered capital of Youxin Company.

Upon completion of the equity transfers, Yang Wenjun and Yang Renkui ceased to own any equity interest in Youxin Company.

On November 3, 2002, a shareholders' resolution was further passed to increase the registered capital of Youxin Company from RMB1,080,000 to RMB4,200,000. Lin Ning, Zhao Ping, Liu Hongbin and Dai Huayin contributed an additional RMB262,000, RMB749,100, RMB367,000 and RMB367,000, respectively to the registered capital of Youxin Company. 26 individual shareholders contributed to the increase of registered capital of Youxin Company as their private investment in the oil drilling equipment industry, as a result of which Youxin Company was owned by 30 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Zhao Ping	22.598%
Dai Huayin	13.500%
Liu Hongbin	13.500%
Lin Ning	11.000%
Zhang Mi	4.000%
Liu Zhi	4.000%
Zhang Changlun	3.000%
Ju Lang	3.000%
Xie Xiaohong	3.000%
Yuan Da	2.000%
Qu Xiaonan	1.919%
Zhang Xu	1.917%
Chen Yaling	1.200%
Zeng Xianglong	1.190%
Li Lanxi	1.000%
Ma Zhaoyi	1.000%
Zhou Bing	1.000%
Zhang Yanyong	1.000%
Xiao Kaiyun	1.000%
Lin Ye	1.000%
Zhuang Jiandong	1.000%
Fang Yong	1.000%
Zheng Yong	1.000%
Xiao Mingsheng	1.000%
Jia Zhiyuan	1.000%
Xu Chuan	1.000%
Liu Xuetian (deceased)	0.724%
Luo Qiping	0.500%
Li Xia	0.476%
Di Xiaohong	0.476%
Total:	100.000%

Zhang Mi and Zhang Xu are executive Directors, and together with Liu Zhi, Zhou Bing, Zhang Yanyong, Zheng Yong and Liu Xuetian (deceased), are Substantial Shareholders and Existing Shareholders of our Company. Zhao Ping, Xu Chuan, Luo Qiping and Di Xiaohong are also Existing Shareholders of our Company.

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Relationships between Youxin Company's shareholders and our Shareholders are set out as follows:

Youxin Company Shareholder	Relationship with our Shareholder
Dai Huayin	Brother-in-law of Zhang Mi, our executive Director and Substantial Shareholder
Liu Hongbin	Father of Liu Zhi, our Substantial Shareholder
Fang Yong	Brother-in-law of Wang Jiangyang, our Substantial Shareholder
Li Xia	Niece of Liu Xuetian (deceased), our Substantial Shareholder before his death
Qu Xiaonan	Spouse of Fan Bing, our Substantial Shareholder
Yuan Da	Spouse of Ren Jie, our executive Director and Substantial Shareholder

Of the current shareholders of Youxin Company, Lin Ning, Zeng Xianglong, Li Lanxi, Ma Zhaoyi, Xiao Kaiyun, Lin Ye, Zhuang Jiandong, Xiao Minsheng and Jia Zhiyuan are Independent Third Parties.

On February 18, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in registered capital. Upon completion of the capital increase, 30 individual shareholders owned almost the entire equity interest in Youxin Company.

At the time of the formation of the Concert Group, on June 19, 2003, seven members of the Concert Group, namely, Zhang Mi, Liu Zhi, Zhou Bing, Zhang Yanyong, Zheng Yong, Liu Xuetian (deceased) and Zhang Xu, together with their relatives as described above, namely, Dai Huayin, Liu Hongbin, Fang Yong, Li Xia, Qu Xiaonan, and Yuan Da, held approximately 46.034% equity interest in Youxin Company.

On May 13, 2003, a shareholders' resolution was passed to increase the registered capital of Youxin Company from RMB4,200,000 to RMB5,880,000 for Youxin Company's expansion and development and to allow payments towards the capital increase by way of dividend issued by Youxin Company. The shareholders of Youxin Company contributed an additional RMB1,680,000 to the registered capital of Youxin Company in proportion to their equity interest in Youxin Company. On June 5, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in the registered capital. Upon completion of the said capital increase, Youxin Company was owned by thirty individual shareholders.

On July 18, 2006, Liu Hongbin, Lin Ning and Xiao Minsheng agreed to transfer approximately 13.5%, 6% and 1% equity interest at consideration of RMB793,800, RMB352,800 and RMB58,000 in Youxin Company to Liu Zhi, Zhao Ping and Zhang Changlun, respectively. The consideration was determined with reference to their capital contributions to registered capital of Youxin Company.

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On July 18, 2006, Honghua Company entered into an equity transfer agreement with each of the 20 individual shareholders, pursuant to which Honghua Company agreed to purchase from their entire equity interest in Youxin Company to consolidate the group structure for Listing. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Zhao Ping	3,610,452	23.799%
Liu Zhi	2,654,820	17.500%
Dai Huayin	2,048,004	13.500%
Lin Ning	758,520	5.000%
Zhang Mi	606,816	4.000%
Yuan Da	303,408	2.000%
Qu Xiaonan	291,024	1.918%
Zhang Xu	290,766	1.917%
Zeng Xianglong	180,600	1.190%
Jia Zhiyuan	151,704	1.000%
Ma Zhaoyi	151,704	1.000%
Li Lanxi	151,704	1.000%
Zhang Yanyong	151,704	1.000%
Zhou Bing	151,704	1.000%
Zheng Yong	151,704	1.000%
Xu Chuan	151,704	1.000%
Liu Xuetian (deceased)	109,650	0.723%
Luo Qiping	75,852	0.500%
Di Xiaohong	72,240	0.476%
Li Xia	72,240	0.476%
Total:	12,136,320	80.000%

The consideration was determined with reference to the unaudited net asset value of Youxin Company as of June 30, 2006.

Upon completion of the equity transfers on August 23, 2006, Youxin Company was owned as to 80% by Honghua Company and 20% by nine individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Company	80.000%
Zhao Ping	4.799%
Zhang Changlun	4.000%
Ju Lang	3.000%
Xie Xiaohong	3.000%
Chen Yaling	1.201%
Lin Ye	1.000%
Zhuang Jiandong	1.000%
Xiao Kaiyun	1.000%
Fang Yong	1.000%
Total:	100.000%

After completion of the Reorganization, Youxin Company became an 80% indirectly owned subsidiary of the Company. The nine individual shareholders are core members of the operational staff of Youxin Company.

Each of the members of the Concert Group and their relatives who were or are the shareholders and/or directors of Youxin Company since the formation of the Concert Group, on June 19, 2003, voted according to

COMPANY HISTORY AND REORGANIZATION

instructions of the Concert Group in the shareholders' and board meetings of Youxin Company. The Concert Group has, since its formation, through its members and their relatives controlled Youxin Company.

Honghua International

Honghua International was established as a limited liability company with a registered capital of RMB2,000,000, on January 13, 2004. As of its establishment, Honghua International was owned as to 40% by Honghua Company and 60% by 20 individuals as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Company	40.000%
Liu Zhi	13.400%
Ren Jie	7.300%
Liu Xuetian (deceased)	4.200%
Ma Limin	4.200%
Luo Qiping	3.600%
Zhang Yanyong	3.400%
Zhou Bing	3.200%
Zhang Xu	2.300%
Fan Bing	2.300%
Xu Chuan	2.100%
Di Xiaohong	2.000%
Zheng Yong	2.000%
Shu Yuanbin	1.600%
Zuo Huixian	1.500%
Chen Jun	1.500%
Li Hanqiang	1.400%
Tian Diyong	1.100%
Ao Pei	1.100%
Chen Zhen	1.000%
Wang Jiangyang	0.800%
Total:	100.000%

Liu Zhi, Ren Jie, Liu Xuetian (deceased), Zhang Yanyong, Zhou Bing, Zhang Xu, Fan Bing, Zheng Yong, Zuo Huixian, Chen Jun, Tian Diyong, Ao Pei, Li Hanqiang and Wang Jiangyang, members of the Concert Group, collectively held an approximately 45.5% equity interest of Honghua International.

COMPANY HISTORY AND REORGANIZATION

On September 26, 2005, a shareholders' resolution was passed to increase the registered capital of Honghua International from RMB2,000,000 to RMB3,200,000. Except for Ao Pei and Li Hangqiang, all the individual shareholders contributed to the increase by RMB1,200,000. Upon completion of the capital increase, Honghua International was owned as to 25% by Honghua Company and 75% by 20 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Company	25.000%
Liu Zhi	14.594%
Ren Jie	11.750%
Liu Xuetian (deceased)	6.375%
Ma Limin	4.813%
Luo Qiping	4.438%
Zhou Bing	3.313%
Zhang Xu	3.000%
Xu Chuan	2.875%
Di Xiaohong	2.813%
Zheng Yong	2.813%
Fan Bing	2.688%
Zuo Huixian	2.656%
Chen Jun	2.500%
Zhang Yanyong	2.250%
Shu Yuanbin	1.938%
Chen Zhen	1.875%
Tian Diyong	1.625%
Wang Jiangyang	1.125%
Li Hangqiang	0.875%
Ao Pei	0.688%
Total:	100.000%

COMPANY HISTORY AND REORGANIZATION

On October 16, 2005 and October 20, 2005, Zhang Yanyong and Zhou Bing agreed to transfer their 0.300% and 0.400% equity interests in Honghua International to Liu Zhi at consideration of RMB6,000 and RMB8,000, respectively. The consideration was determined with reference to their capital contributions to the registered capital of Honghua International. Upon completion of the equity transfers, Honghua International was owned as to 25% by Honghua Company and as to 75% by 20 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Company	25.000%
Liu Zhi	14.856%
Ren Jie	11.750%
Liu Xuetian (deceased)	6.375%
Ma Limin	4.813%
Luo Qiping	4.438%
Zhou Bing	3.163%
Zhang Xu	3.000%
Xu Chuan	2.875%
Di Xiaohong	2.813%
Zheng Yong	2.813%
Fan Bing	2.688%
Zuo Huixian	2.656%
Chen Jun	2.500%
Zhang Yanyong	2.138%
Shu Yuanbin	1.938%
Chen Zhen	1.875%
Tian Diyong	1.625%
Wang Jiangyang	1.125%
Li Hanqiang	0.875%
Ao Pei	0.688%
Total:	100.000%

On January 20, 2006, a new business license was issued by the Administration of Industry and Commerce, Sichuan, Guanghan reflecting this.

COMPANY HISTORY AND REORGANIZATION

On July 18, 2006, various shareholders entered into an equity transfer agreement with Honghua Company, pursuant to which the shareholders agreed to transfer an aggregate of approximately 55% equity interest in Honghua International to Honghua Company. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Ren Jie	1,436,320	11.750%
Liu Zhi	1,061,960	8.688%
Liu Xuetian (deceased)	550,080	4.500%
Luo Qiping	542,440	4.438%
Zhang Xu	366,720	3.000%
Xu Chuan	351,440	2.875%
Zheng Yong	343,800	2.813%
Di Xiahong	343,800	2.813%
Fan Bing	328,520	2.688%
Shu Yuanbin	236,840	1.938%
Chen Zhen	229,200	1.875%
Tian Diyong	198,640	1.625%
Ma Limin	191,000	1.563%
Zhang Yanyong	191,000	1.563%
Wang Jiangyang	137,520	1.125%
Li Hanqiang	106,960	0.875%
Ao Pei	84,040	0.688%
Zhou Bing	22,920	0.188%
Total:	6,723,200	55.000%

The consideration was determined with reference to the independent valuation of the unaudited net asset value of Honghua International as of June 30, 2006.

On the same date, Liu Zhi, Liu Xuetian (deceased), Zhang Yanyong and Zuo Huixian entered into various equity transfer agreements to dispose of all of their equity interest in Honghua International. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Transferee</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Liu Zhi	Liu Yonghong	88,000	2.750%
Liu Xuetian (deceased)	Liu Yonghong	40,000	1.250%
Liu Zhi	Li Ping	32,000	1.000%
Liu Zhi	Wang Wei	23,000	0.719%
Liu Zhi	Chen Honghong	20,000	0.625%
Liu Zhi	Xue Yuqing	20,000	0.625%
Liu Xuetian (deceased)	Zhang Aimin	20,000	0.625%
Zhang Yanyong	Zhang Wei	16,000	0.500%
Zuo Huixian	Mo Kunrong	15,000	0.469%
Zhang Yanyong	Jiang Ping	6,000	0.188%
Liu Zhi	Jiang Ping	6,000	0.188%

COMPANY HISTORY AND REORGANIZATION

Upon completion of the equity transfers, Honghua International was owned as to 80% by Honghua Company and 20% by 13 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Honghua Company	80.000%
Liu Yonghong	4.000%
Ma Limin	3.250%
Zhou Bing	3.125%
Chen Jun	2.500%
Zuo Huixian	2.188%
Li Ping	1.000%
Wang Wei	0.719%
Zhang Aimin	0.625%
Chen Honghong	0.625%
Xue Yuqing	0.625%
Zhang Wei	0.500%
Mo Kunrong	0.469%
Jiang Ping	0.375%
Total:	20.000%

After completion of the Reorganization, Honghua International became 80% indirectly owned by the Company.

None of the members of the Concert Group who is or has been a shareholder and/or director of Honghua International since its establishment, on January 13, 2004, has a relative who is also a shareholder or director of Honghua International and who has voted under the instructions of the Concert Group in the shareholder and board meetings of Honghua International. The Concert Group has, at all times, controlled Honghua International.

COMPANY HISTORY AND REORGANIZATION

Hongtian Company

Hongtian Company was established as a limited liability company with a registered capital of RMB1,180,000, on June 6, 2001. At the time of its establishment, Hongtian Company was owned by 25 individuals as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Zhang Cong (張聰)	20.847%
Yuan Da (袁達)	5.254%
Wang Jiangyang (王江陽)	5.085%
Tang Ying (唐穎)	5.085%
Yi Langlin (易琅琳)	4.237%
Xiao Wei (肖薇)	3.898%
Ma Jing (馬競)	3.814%
Shi Li Feng (石立峰)	3.814%
Zhang Jiancheng (張建成)	3.814%
Zhu Qixian (朱奇先)	3.814%
Liu Hong (劉鴻)	3.559%
Qu Yihong (曲一紅)	3.517%
Qu Xiaonan (曲曉楠)	3.390%
Bian Weidi (卞維娣)	3.390%
Xu Guomei (胥國梅)	3.390%
Qin Xiaoqiang (秦小強)	3.136%
Wang Daihua (王代華)	3.136%
Jiang Xingzhong (薑興忠)	3.136%
Ma Shuangfu (馬雙富)	2.542%
Wan Xiaohong (萬小宏)	2.542%
Zhang Tiansheng (張天生)	1.822%
Zeng Xianglong (曾祥龍)	1.695%
Ma Zhaoyi (馬昭儀)	1.695%
Li Meijuan (李梅娟)	1.695%
Du Zexia (杜澤霞)	1.695%
Total:	100.000%

The relationship between Hongtian Company's individual shareholders and our Shareholders are set out as follows:

<u>Hongtian Company Shareholder</u>	<u>Relationship with our Shareholders</u>
Zhang Cong	Brother of Zhang Mi, our executive Director and Substantial Shareholder
Qu Xiaonan	Spouse of Fan Bing, our Substantial Shareholder
Xiao Wei	Spouse of Liu Zhi, our Substantial Shareholder
Liu Hong	Spouse of Zhang Xu, our executive Director and Substantial Shareholder
Yuan Da	Spouse of Ren Jie, our executive Director and Substantial Shareholder
Qu Yihong	Spouse of Liu Xuetian (deceased), our Substantial Shareholder before this death
Bian Weidi	Spouse of Zheng Yong, our Substantial Shareholder
Xu Guomei	Spouse of Zhang Yanyong, our Substantial Shareholder
Du Zexia	Spouse of Di Xiaohong, our Existing Shareholder
Yi Langlin	Spouse of Zhang Mi, our executive Director and Substantial Shareholder

Wang Jiangyang and Tang Ying are Existing Shareholders. The shareholders comprised mainly technicians and spouses of the management of Honghua Company. The 25 individual shareholders were friends who established Hongtian Company as an investment in the oil drilling equipment industry.

COMPANY HISTORY AND REORGANIZATION

On July 16, 2003, various individual shareholders entered into equity transfer agreements to dispose of their equity interest in Hongtian Company. The consideration was determined with reference to their contributions to the registered capital of Hongtian Company. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Transferee</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Ma Jing	Wang Jiangyang	45,000	3.814%
Shi Li Feng	Zhang Cong	45,000	3.814%
Zhang Jiancheng	Xiao Wei	45,000	3.814%
Zhu Qixian	Yi Langlin	45,000	3.814%
Jiang Xingzhong	Yuan Da	37,000	3.315%
Qin Xiaoqiang	Bian Weidi	37,000	3.315%
Wang Daihua	Liu Hong	37,000	3.315%
Ma Shuangfu	Qu Yihong	30,000	2.542%
Wan Xiaohong	Xu Guomei	30,000	2.542%
Zhang Tiansheng	Qu Xiaonan	21,500	1.822%

Upon completion of the equity transfers on August 5, 2003, Ma Jing, Shi Li Feng, Zhang Jiancheng, Zhu Qixian, Jiang Xingzhong, Qin Xiaoqiang, Wang Daihua, Ma Shuangfu, Wan Xiaohong and Zhang Tiansheng disposed of all their equity interest in Hongtian Company, and Hongtian Company was owned by 15 individual shareholders, as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Zhang Cong	24.661%
Wang Jiangyang	8.898%
Yuan Da	8.390%
Yi Langlin	8.051%
Xiao Wei	7.712%
Liu Hong	6.695%
Bian Weidi	6.525%
Qu Yihong	6.059%
Xu Guomei	5.932%
Qu Xiaonan	5.212%
Tang Ying	5.085%
Zeng Xianglong	1.695%
Ma Zhaoyi	1.695%
Li Meijuan	1.695%
Du Zexia	1.695%
Total:	100.000%

On July 26, 2004, a shareholders' resolution was passed to increase the registered capital of Hongtian Company, from RMB1,180,000 to RMB3,540,000, for Hongtian Company's expansion and development and to approve the increase in registered capital by using Hongtian Company's undistributed profits. The shareholders contributed to the increase in registered capital of Hongtian Company in proportion to their equity interests. On August 18, 2004, a new business license was issued by the Administration of Industry and Commerce of Chengdu, reflecting this increase in the registered capital. Upon completion of the capital increase, the equity interest of each shareholder in Hongtian Company remained unchanged.

On August 29, 2005, a shareholders' resolution was passed to further increase the registered capital of Hongtian Company from RMB3,540,000 to RMB7,000,000 for Hongtian Company's further expansion and development. Except for Zeng Xianglong, Tang Ying, Li Meijuan and Ma Zhaoyi, all the shareholders made

COMPANY HISTORY AND REORGANIZATION

additional capital contributions to Hongtian Company. On September 23, 2005, a new business license was issued by the Administration of Industry and Commerce of Chengdu reflecting the increase in the registered capital. Upon completion of the said capital increase, Hongtian Company was owned by 15 individual shareholders as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Zhang Cong	35.371%
Yi Langlin	10.057%
Wang Jiangyang	8.029%
Yuan Da	7.571%
Xiao Wei	7.057%
Liu Hong	5.914%
Bian Weidi	5.029%
Qu Yihong	4.843%
Xu Guomei	4.714%
Qu Xiaonan	4.557%
Tang Ying	2.571%
Du Zexia	1.714%
Li Meijuan	0.857%
Zeng Xianglong	0.857%
Ma Zhaoyi	0.857%
Total:	100.000%

On July 30, 2006, Honghua Company entered into an equity transfer agreement with various shareholders, pursuant to which Honghua Company agreed to purchase from those shareholders all of their equity interest in Hongtian Company, making up 80% equity, for the purpose of consolidating the Group structure for the Listing. Details of the equity transfers are as follows:

<u>Transferor</u>	<u>Consideration (RMB)</u>	<u>Approximate equity Interest transferred</u>
Zhang Cong	7,281,720	19.371%
Yi Langlin	3,780,480	10.057%
Yuan Da	2,846,100	7.571%
Xiao Wei	2,652,780	7.057%
Liu Hong	2,223,180	5.914%
Bian Weidi	1,890,240	5.029%
Qu Yihong	1,820,430	4.843%
Xu Guomei	1,772,100	4.714%
Qu Xiaonan	1,713,030	4.557%
Wang Jiangyang	1,514,340	4.029%
Tang Ying	966,600	2.571%
Du Zexia	644,400	1.714%
Li Meijuan	322,200	0.857%
Zeng Xianglong	322,200	0.857%
Ma Zhaoyi	322,200	0.857%
Total:	30,072,000	80.000%

The consideration was determined with reference to the unaudited net asset value of Hongtian Company, as of June 30, 2006. Upon completion of the above equity transfers, Xiao Wei, Yi Langlin, Yuan Da, Bian Weidi, Liu Hong, Qu Yihong, Xu Guomei, Qu Xiaonan, Du Zexia, Tang Ying, Li Meijuan, Zeng Xianglong and Ma Zhaoyi ceased to be shareholders of Hongtian Company.

COMPANY HISTORY AND REORGANIZATION

On July 31, 2006, Zhang Cong entered into equity transfer agreements with various individuals, pursuant to which he agreed to transfer his equity interest in Hongtian Company to those individuals. Details of the equity transfers are as follows:

<u>Transferee</u>	<u>Consideration (RMB)</u>	<u>Approximate equity interest transferred</u>
Li Qin (李芹)	168,000	2.400%
Che Mingzhe (車明者)	84,000	1.200%
Hu Likang (胡立康)	56,000	0.800%
Huang Sheng (黃勝)	42,000	0.600%
Liao Wenzhong (廖文忠)	28,000	0.400%
Chen Tao (陳濤)	28,000	0.400%
He Yugang (何玉剛)	21,000	0.300%
Luo Laijun (羅來軍)	21,000	0.300%
Huang Huijian (黃輝建)	21,000	0.300%
Zheng Liang (鄭亮)	21,000	0.300%

The consideration was determined with reference to Zhang Cong's capital contributions to the registered capital of Hongtian Company and the individuals paid the consideration to Zhang Cong in proportion to the equity interests they acquired from him. These new individual shareholders are core members of the operational staff of Hongtian Company.

Upon completion of the equity transfers on August 22, 2006, Hongtian Company was owned as to 80% by Honghua Company and 20% by 12 individual shareholders, as follows:

<u>Shareholder</u>	<u>Approximate equity interest</u>
Zhang Cong	9.000%
Wang Jiangyang	4.000%
Li Qin	2.400%
Che Mingzhe	1.200%
Hu Likang	0.800%
Huang Sheng	0.600%
Liao Wenzhong	0.400%
Chen Tao	0.400%
He Yugang	0.300%
Luo Laijun	0.300%
Huang Huijian	0.300%
Zheng Liang	0.300%
Total:	20.000%

After completion of the Reorganization, Hongtian Company became an 80% indirectly owned subsidiary of the Company.

Offshore Companies

Formation of Honghua America

Honghua America was established in the State of Texas as a limited partnership on October 11, 2004. At the time of its establishment, it was owned as to 2% by NCE Management, Inc. and 98% by Sue Ann Ma. Sue Ann Ma is a US resident. Her shareholding in Honghua America was for the purpose of compliance with Texas law for establishing a Texas company.

COMPANY HISTORY AND REORGANIZATION

Sue Ann Ma, an Independent Third Party, on the date of establishment of Honghua America entered into an agreement with Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun, pursuant to which Sue Ann Ma assigned an aggregate of 98% equity interest in Honghua America to Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun (24.5% to each of them) at par value. Upon completion of the above assignments on October 11, 2004, Sue Ann Ma ceased to be a shareholder of Honghua America and Honghua America was owned as to 2% by NCE Management Inc. and 24.5% by each of Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun.

On October 11, 2004, Honghua Company entered into an agreement with Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun, pursuant to which Honghua Company acquired an aggregate 51% equity interest in Honghua America (12.75% equity interest from each of them) at par value. Upon completion of the above assignments Honghua America was owned as to 2% by NCE Management Inc., 51% by Honghua Company and 11.75% by each of Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun. The equity transfers were made for the purpose of obtaining work visas for the PRC employees.

Zhang Mi, a member of the Concert Group, has been the Chairman of Honghua America since its establishment on October 11, 2004, and is a director of Honghua Company, Honghua International and HH Egyptian Company. Zhang Yanyong and Ao Pei, both members of the Concert Group, have been the President and the Treasurer of Honghua America, respectively, since its establishment. Huang Zhun has been the Secretary of Honghua America since its establishment.

On November 1, 2006, Honghua Company entered into an agreement with Zhang Yanyong, Huang Zhun and Ao Pei, pursuant to which Honghua Company acquired an aggregate of 29% equity interest in Honghua America (as to 5.5%, 11.75% and 11.75% respectively). NCE Management Inc. also entered into an agreement with Zhang Yanyong and Zhang Mi pursuant to which NCE Management Inc. acquired 11.75% and 6.25% equity interest in Honghua America, respectively. Upon completion of the above assignments, Honghua America was owned as to 20% by NCE Management Inc. and 80% by Honghua Company. The equity transfers were made for the purpose of consolidating the Group structure for the Listing.

On December 19, 2006, Honghua America was converted from a limited partnership to a limited liability company. Honghua America was owned as to 80% by Honghua Company and 20% by NCE Management Inc.

NCE Management Inc., is currently owned as to 45.9% by Zhang Yanyong, a member of the Concert Group and a Substantial Shareholder, 23.9% by Huang Zhun, 20.35% by Ao Pei, a member of the Concert Group and a Substantial Shareholder and 9.85% by Chen Guo. Except for their shareholding in NCE Management Inc., which holds a 20% equity interest in Honghua America, Huang Zhun and Chen Guo are Independent Third Parties.

Formation of Lucky Wish and Golden Coast Company

To help expand Honghua Company's international market and to facilitate the export business of Honghua International, Honghua International decided to establish Lucky Wish and Golden Coast Company.

Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. Its authorized share capital is USD50,000 divided into 50,000 shares of USD1.00 each. On December 5, 2005, one share was allotted to Liu Zhi on trust for Honghua International. Since mid 2005, Honghua Company has faced an increased international demand for drilling rigs and equipment. Honghua International was new to the international market and unfamiliar with the trading environment. The Group decided that, in order to establish a name for itself in the international market, it should incorporate an overseas company so as to create an appropriate platform from which to trade. As incorporation of an overseas company required complicated procedures and took time in the PRC, the Company decided to enter into a trust arrangement in order to capture this business opportunity. The Group has, pursuant to a letter issued by the Bureau of Commerce of Sichuan Province dated October 29, 2007,

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arranged to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations. The Group is currently (i) gathering the financial information of Lucky Wish; (ii) collecting accounts receivables of Lucky Wish; (iii) settling the debts and liabilities of Lucky Wish; and (iv) liaising with BVI counsel for the purpose of closing down Lucky Wish. Lucky Wish will be closed down as soon as the relevant procedures required under BVI law are complete.

Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006. Its authorized share capital is UAE Dirhams 1,000,000. Honghua International subscribed for one share for UAE Dirhams 1,000,000 and wholly owns Golden Coast Company.

Formation of HH Egyptian Company

On December 26, 2006, Honghua Company, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company (Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company collectively the “Egyptian Shareholders”) entered into a joint venture agreement to establish HH Egyptian Company in Egypt, with an authorized share capital of US\$30,000,000 and issued share capital of US\$12,000,000, divided into 12,000 shares of US\$1,000 each.

On January 8, 2007, Honghua Company and Asia Harbour signed a letter of declaration, pursuant to which Asia Harbour replaced Honghua Company as party to the joint venture agreement for the establishment of HH Egyptian Company.

Upon formation of HH Egyptian Company on April 24, 2007, Asia Harbour, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company, and Tharwa Petroleum Company held 50%, 25%, 10% and 15% equity interests in HH Egyptian Company, respectively.

The Egyptian Shareholders are engaged in, among other things, oil and gas exploration, development and production of petroleum and provision of petroleum services inside and outside Egypt. The Egyptian Shareholders are owned by Independent Third Parties.

Principal terms of the joint venture agreement are set out below.

HH Egyptian Company’s objectives are to construct and operate a plant in Egypt for the manufacturing, assembly, and provision of services related thereto including the maintenance, repair, overhaul, painting, testing of onshore drilling rigs and offshore drilling equipment, workover rigs for the oil and gas industry and manufacturing of any other components in Egypt. HH Egyptian Company has the sole right to sell the products of Honghua Company to the oil and gas industry in Egypt. In addition, HH Egyptian Company will sell all products assembled and/or manufactured in Egypt by the HH Egyptian Company to purchasers in North Africa and surrounding countries and in any other country to be agreed by the joint venture parties. None of the joint venture parties may set up a new company with any other party and/or participate in a company or joint venture that has the same business objectives as HH Egyptian Company in Egypt, the North African countries or any other countries approved by the board members. Asia Harbour shall not compete with HH Egyptian Company in Egypt, the North African countries or other countries approved by the board.

The joint venture parties have agreed that for a period of five years from the date of incorporation, they shall not transfer their shares in HH Egyptian Company. However, during those five years, the Egyptian Shareholders may sell or transfer shares of HH Egyptian Company to the other Egyptian Shareholder(s) as long as they maintain a minimum of 3% shareholding in HH Egyptian Company. No restrictions are imposed after the expiry of this five year period. Each joint venture party has the right of first refusal.

COMPANY HISTORY AND REORGANIZATION

The board of directors of HH Egyptian Company consists of a minimum of eight members, of which six are permanent and two are non-permanent members. The Egyptian Shareholders and Asia Harbour are each entitled to nominate four members to the board. The Egyptian Shareholders and Asia Harbour are each entitled to nominate an equal number of additional directors on any proportional increase in board composition. Any board decision shall be by majority vote of six directors.

HH Egyptian Company shall operate for an initial term of 20 years, subject to extension by mutual agreement by the joint venture parties and approval by the relevant Egyptian authorities. HH Egyptian Company has obtained all approvals required for operation, i.e. the approvals issued by the General Authority for Investment and Industrial Development Authority and commenced business on May 22, 2007.

Reorganization

In connection with the Global Offering, we underwent the Reorganization as described below in anticipation of the Listing of the Shares on the Stock Exchange.

Formation of Asia Harbour as an investment holding company

On July 8, 2006, Asia Harbour was incorporated in Hong Kong with limited liability with an authorized share capital of HK\$10,000, divided into 10,000 shares of HK\$1.00 each. On the same date, one share was allotted and issued to the initial subscriber, Gold Regal Development Limited. On August 18, 2006, Ally Giant acquired from Gold Regal Development Limited the share in Asia Harbour, for a consideration of HK\$1.00.

COMPANY HISTORY AND REORGANIZATION

Ally Giant is wholly-owned by Ample Chance, which in turn is owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, all BVI incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate shareholders of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

<u>Shareholder</u>	<u>Approximate equity interest in Honghua Company before acquisition by Asia Harbour</u>	<u>Approximate equity interest in Asia Harbour</u>
<i>Concert Group</i>		
Zhang Mi	36.000%	36.000%
Ren Jie	7.894%	7.894%
Zheng Yong	5.600%	5.600%
Liu Zhi	5.600%	5.600%
Zuo Huixian	4.373%	4.373%
Zhang Xu	4.213%	4.213%
Fan Bing	4.160%	4.160%
Liu Xuetian (deceased)	3.733%	3.733%
Zhang Yanyong	3.707%	3.707%
Zhou Bing	2.032%	2.032%
Wang Jiangyang	1.067%	1.067%
Chen Jun	0.943%	0.943%
Ao pei	0.703%	0.703%
Lu Lan	0.681%	0.681%
Tian Yu	0.410%	0.410%
Li Hanqiang	0.367%	0.367%
Tian Diyong	0.363%	0.363%
Shen Dingjian	0.285%	0.285%
Liu Yingguo	0.160%	0.160%
Liu Lulu	0.128%	0.128%
Sub-total:	82.419%	82.419%
<i>Other shareholders</i>		
Zhang Cong	4.550%	4.550%
Yang Hong	3.192%	3.192%
Zhao Ping	2.485%	2.485%
Luo Qiping	1.600%	1.600%
Liu Gangqiang	0.960%	0.960%
Di Xiaohong	0.917%	0.917%
Ma Limin	0.875%	0.875%
Xu Chuan	0.763%	0.763%
Chen Zhen	0.720%	0.720%
Liu Yonghong	0.667%	0.667%
Tang Ying	0.319%	0.319%
Tian Daoyun	0.213%	0.213%
Di Baiwei	0.160%	0.160%
Li Ping	0.160%	0.160%
Sub-total:	17.581%	17.581%
Total:	100.000%	100.000%

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by 3 individuals, Ren Jie, Liu Zhi and Zheng Yong as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by

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seven individuals, Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by nine individuals, Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by thirteen individuals, Liu Xuetian (deceased), Zhou Bing, Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong. Among these named shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu. For details of the Concert Group, please see the sub-section entitled “Concert Group” below.

On October 29, 2007, twelve shareholders transferred their entire interests held in the BVI companies, to other BVI companies of which the shares are held by Equity Trustee, as the trustee for the family trusts, as follows:

- (a) Zhang Mi transferred his 100% equity interest in Ally Smooth, to Wealth Afflux Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZYL Family Trust, a discretionary trust established by Zhang Mi for his family members.
- (b) Ren Jie transferred his approximately 41.34% equity interest in Charm Moral, to Mowbray Worldwide Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The RJDJ Victory Trust, a discretionary trust established by Ren Jie for his family members.
- (c) Liu Zhi transferred his approximately 29.33% equity interest in Charm Moral, to Ecotech Enterprises Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The LZWM Family Trust, a discretionary trust established by Liu Zhi for his family members.
- (d) Zhang Cong transferred his approximately 24.58% equity interest in Beauty Clear, to Otama Company Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZCYC Family Trust, a discretionary trust established by Zhang Cong for his family members.
- (e) Zuo Huixian transferred his approximately 23.63% equity interest in Beauty Clear, to Vast & Fast Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZHH Family Trust, a discretionary trust established by Zuo Huixian for his family members.
- (f) Zhang Xu transferred his approximately 22.77% equity interest in Beauty Clear, to Cavendish Global Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The Hong Xu Family Trust, a discretionary trust established by Zhang Xu for his family members.
- (g) Zhao Ping transferred his approximately 13.43% equity interest in Beauty Clear, to Airtech Investments Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZPL Family Trust, a discretionary trust established by Zhao Ping for his family members.
- (h) Fan Bing transferred his approximately 32.72% equity interest in Believe Power, to Brondesbury Enterprises Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The FBX Family Trust, a discretionary trust established by Fan Bing for his family members.
- (i) Luo Qiping transferred his approximately 12.59% equity interest in Believe Power, to Oriental Starz Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The LQ Family Trust, a discretionary trust established by Luo Qiping for his family members.

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- (j) Liu Gangqiang transferred his approximately 7.55% equity interest in Believe Power, to Tech Express Enterprises Inc., a BVI company, which is wholly held by Equity Trustee, as trustee of The LGJT Family Trust, a discretionary trust established by Liu Gangqiang for his family members.
- (k) Liu Xuetian (deceased) transferred his approximately 35.57% equity interest in Benefit Way, to Dobson Global Inc., a BVI company, which is wholly held by Equity Trustee, as trustee of The LXYY Family Trust, a discretionary trust established by Liu Xuetian (deceased) for his family members.
- (l) Zhou Bing transferred his approximately 19.36% equity interest in Benefit Way, to Darius Enterprises Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The Fang Zhou Family Trust, a discretionary trust established by Zhou Bing for his family members.

Acquisition of Honghua Company by Asia Harbour

For the Reorganization, Asia Harbour entered into an equity purchase and capital increase agreement with 34 individual shareholders, on August 24, 2006, pursuant to which Asia Harbour acquired the entire equity interest in Honghua Company from the 34 individual shareholders, at a total consideration of U.S. dollars equivalent to RMB155,000,000, which was determined with reference to an independent valuation of the net asset value of Honghua Company, as of July 31, 2006, plus the cash capital contributions made by the shareholders at the time, pursuant to the shareholder's resolutions of Honghua Company dated August 24, 2006. Asia Harbour also contributed U.S. dollars equivalent to RMB53,250,000, as an increase in the registered capital of Honghua Company which, under PRC law, should be paid to Honghua Company within 3 months after obtaining the business license of a wholly foreign-owned enterprise. Upon completion of the equity transfer and the capital increase, Honghua Company was converted from a domestic enterprise into a wholly foreign-owned enterprise, and its registered capital increased from RMB18,750,000 to RMB72,000,000. Honghua Company was then owned 100% by Asia Harbour. After completion of the Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company.

Incorporation of the Company

In preparation for the Global Offering, the Company was incorporated in the Cayman Islands on June 15, 2007. One Share was allotted and issued nil paid to Reid Services Limited on June 15, 2007 and transferred to Ally Giant on the same date.

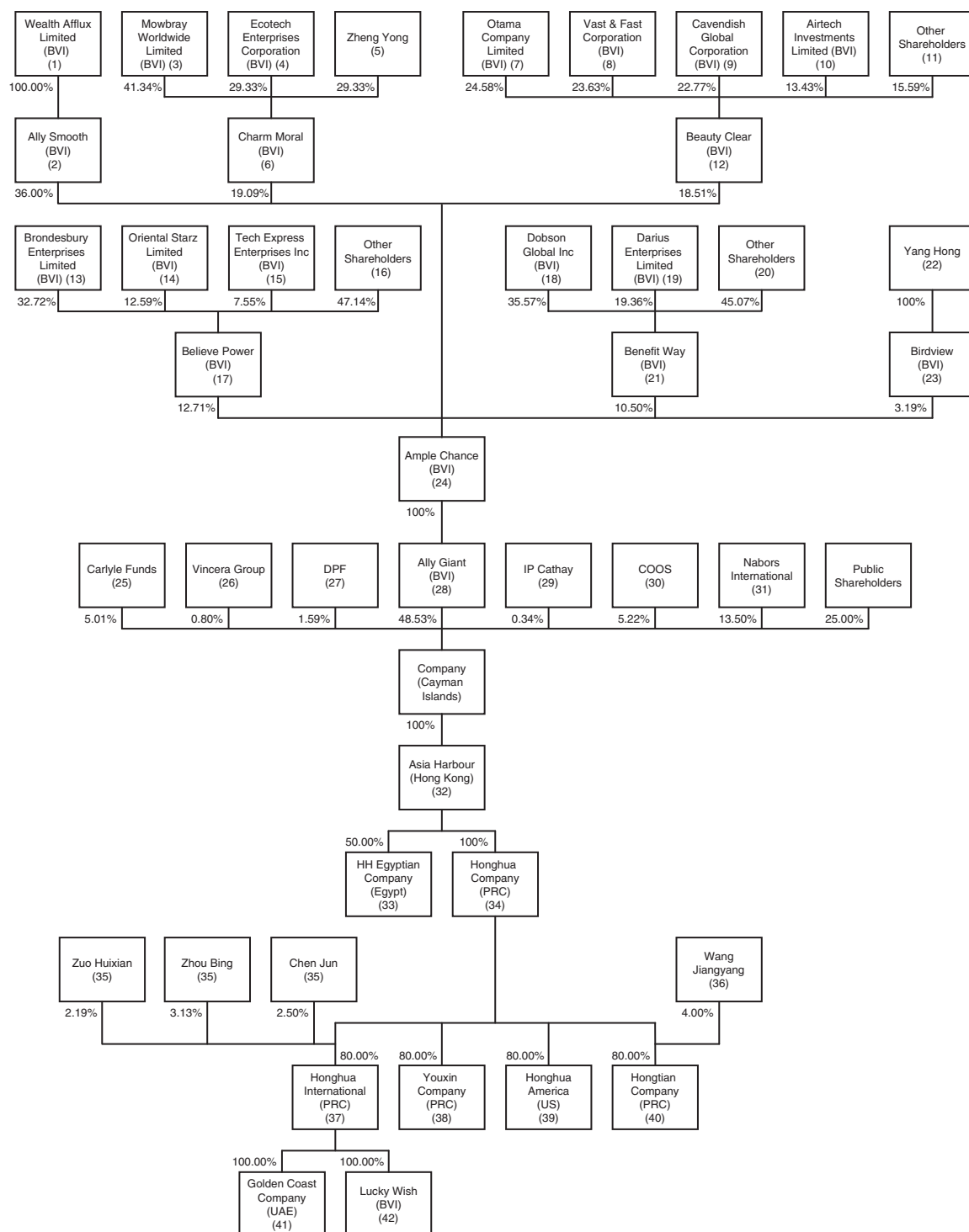
On October 16, 2007, the Company acquired Asia Harbour from Ally Giant. In consideration of this acquisition, the Company credited the one nil paid Share in the Company issued to Ally Giant, as fully paid, and further allotted and issued 2,499,999,999 fully paid up Shares to Ally Giant on October 16, 2007. Our Company became the holding company of the Group on October 16, 2007.

As part of the Reorganization, the Company became the holding company for our various operating subsidiaries. 20 of the Existing Shareholders are members of the Concert Group. For details of the Concert Group, please refer to the sub-section entitled "Concert Group" below. Our Existing Shareholders own direct or indirect equity interests in the BVI companies, namely, Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview. These BVI companies wholly own Ample Chance which in turn wholly owns Ally Giant which in turn owned the entire issued share capital of the Company before the investments by the Financial Investors.

Pursuant to the terms of the Note Instrument and an agreement dated October 16, 2007, Ally Giant transferred approximately 6.7%, 1.0%, 0.5%, 2.1% and 7.0% equity in the Company to Carlyle Funds, Vincera Group, IP Cathay, DPF and COOS, respectively. For details of the transfers, please refer to the sub-section entitled "Financial Investors" below.

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The following chart sets out the structure of the Group, immediately following completion of the Global Offering, taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or the Pre-IPO Share Option Scheme (and assuming the Over-allotment Option is not exercised).



The shareholding percentages of Carlyle Funds, Vincera Group, DPF, IP Cathay and COOS are subject to increase to approximately 5.5%, 0.9%, 1.7%, 0.4% and 5.7%, respectively, at the option of each respective entity,

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in the event Ally Giant's net income based on its audited 2007 financial statements shows an annual growth rate of less than 40%, but greater than 30%. The shareholding held by Ally Giant will be adjusted to approximately 47.4% accordingly. For details, please refer to the subsection entitled "Financial Investor" below.

Notes:

1. Wealth Afflux Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZYL Family Trust, a discretionary trust established by Zhang Mi for his family members. Zhang Mi is an Executive Director. Zhang Mi has been a Director, General Manager and shareholder of Honghua Company since December 31, 1997. Zhang Mi is also a Director of Honghua International, Honghua America and HH Egyptian Company.
2. Ally Smooth was incorporated in the BVI with limited liability on July 5, 2006. It is an investment holding company and our Substantial Shareholder. It is wholly-owned by Wealth Afflux Limited.
3. Mowbray Worldwide Limited was incorporated in the BVI with limited liability on May 16, 2007. It is wholly held by Equity Trustee, as trustee of The RJDJ Victory Trust, a discretionary trust established by Ren Jie for his family members. Ren Jie joined the Group in December, 1997. He is an Executive Director. He is also a Director and a Deputy General Manager of Honghua Company, and a Director of Youxin Company and Honghua International.
4. Ecotech Enterprises Corporation was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LZWM Family Trust, a discretionary trust established by Liu Zhi for his family members. Liu Zhi joined the Group in November, 2000. He is a Deputy General Manager of Honghua Company and a Director and General Manager of Honghua International. Mr. Liu is also a Director of Hongtian Company and HH Egyptian Company.
5. Zheng Yong owns approximately 29.33% of Charm Moral. Zheng Yong joined the Group in November, 1998. He is a Director of Plant No. 2 (二分廠主任) of Honghua Company.
6. Charm Moral was incorporated in the BVI with limited liability on July 18, 2006. It is an investment holding company and is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.
7. Otama Company Limited was incorporated in the BVI with limited liability on May 16, 2007. It is wholly held by Equity Trustee, as trustee of The ZCYC Family Trust, a discretionary trust established by Zhang Cong for his family members. Zhang Cong joined the Group in May, 2001 and is a Director and General Manager of Hongtian Company.
8. Vast & Fast Corporation was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZHH Family Trust, a discretionary trust established by Zuo Huixian for his family members. Zuo Huixian joined the Group in December 1997. He is a Director and Chief Financial Officer (財務負責人) of Honghua International and Director of Finance (財務部主任) of Hongtian Company.
9. Cavendish Global Corporation was incorporated in the BVI with limited liability on September 18, 2007 and it is wholly held by Equity Trustee, as trustee of The Hong Xu Family Trust, a discretionary trust established by Zhang Xu for his family members. Zhang Xu joined the Group in December, 1997, and he is a Director and a Director of the Finance (財務部主任) of Honghua Company.
10. Airtech Investments Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZPL Family Trust, a discretionary trust established by Zhao Ping for his family members. Zhao Ping joined the Group in August, 1998, and is a Director and General Manager of Youxin Company.
11. Other shareholders of Beauty Clear are Wang Jianguang, Chen Jun and Ma Limin (holding approximately 5.76%, 5.10% and 4.73%, respectively). Wang Jianguang joined the Group in October, 1998, and is a Director and Deputy General Manager of Hongtian Company. Chen Jun joined the Group in December, 1997 and he is the Director of Technical Centre of Research and Development, Chengdu (技術中心成都研究部主任), of Honghua Company. Ma Limin joined the Group in November, 2001 and is a General Manager of Golden Coast Company.
12. Beauty Clear was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is owned approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73% by Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Wang Jianguang, Chen Jun and Ma Limin, respectively.
13. Brondesbury Enterprises Limited was incorporated in the BVI with limited liability on April 26, 2007. It is wholly held by Equity Trustee, as trustee of The FBX Family Trust, a discretionary trust established by Fan Bing for his family members. Fan Bing joined the Group in December, 1997 and is a Director of the Assets and Property Department (資產物業部主任) of Honghua Company.
14. Oriental Starz Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LQ Family Trust, a discretionary trust established by Luo Qiping for his family members. Luo Qiping joined the Group in December, 1999. He is a Director of Honghua International. and a Deputy General Manager of Honghua Company.
15. Tech Express Enterprises Inc. was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LGJT Family Trust, a discretionary trust set up by Liu Gangqiang for his family members. Liu Gangqiang joined the Group in March, 2004 and he is the secretary to the board of directors of Honghua Company, and joint company secretary of the Company.
16. Other shareholders of Believe Power are Zhang Yangyong, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun (i.e. holding approximately 29.16%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively). Zhang Yanyong joined the Group in December, 1997, and is President of Honghua America. Chen Zhen joined the Group in October, 2003, and is the Director of Human Resources (人力資源部主任) for Honghua Company. Ao Pei joined the Group in November, 1998, and he is treasurer of Honghua America. Tian Diyong joined the Group in November, 1998, and is Director in the Technical Centre of Research of Drilling Equipment (技術中心鉆采裝備研究所主任) of Honghua Company. Shen Dingjian joined the Group in October, 1998, and is assistant director of Storage and Transport (儲運部主任助理) for Honghua Company. Tian Daoyun joined the Group in July, 2003, and is the Director of Plant No. 3 of Honghua Company.

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17. Believe Power was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is owned approximately 32.72%, 12.59%, 7.55%, 29.16%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68% by Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc., Zhang Yanyong, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, respectively.
18. Dobson Global Inc., was incorporated in the BVI with limited liability on September 18, 2007. It is wholly held by Equity Trustee, as trustee of The LXYX Family Trust, a discretionary trust established by Liu Xuetian (deceased) for his family members. Liu Xuetian (deceased) joined the Group in December, 1997 and passed away on January 23, 2008. He was a Director of Honghua International and Manager of the Engineering Services Department (工程服務公司經理) of Honghua Company.
19. Darius Enterprises Limited was incorporated in the BVI with limited liability on September 18, 2007. It is wholly held by Equity Trustee, as trustee of The Fang Zhou Family Trust, a discretionary trust established by Zhou Bing for his family members. Zhou Bing joined the Group in December 1997, and he is a Deputy General Manager of Honghua International.
20. Other shareholders of Benefit Way are Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu (holding approximately 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively.) Di Xiaohong joined the Group in April, 2000. He is a Director of Honghua International and a director of Storage and Transport Department (儲運部主任) of Honghua Company. Xu Chuan joined the Group in November, 2001, and she is a Director and General Manager of HH Egyptian Company. Lu Lan joined the Group in December, 1997, and is an assistant director in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任助理) of Honghua Company. Liu Yonghong joined the Group in August, 2004, and is a Deputy General Manager of Honghua International. Tian Yu joined the Group in October, 1999, and is vice head of department in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所副所長) of Honghua Company. Li Hanqiang joined the Group in November, 1998, and is a chief engineer in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任工程師) of Honghua Company. Tang Ying joined the Group in November, 1998, and is an engineer in the Technical Engineering Services Department of Honghua Company. Liu Yingguo joined the Group in December, 1997, and is a senior technician in the Engineering Services Department (工程服務公司高級技師) of Honghua Company. Li Ping joined the Group in March, 2006, and is a Deputy General Manager of Honghua International. Di Baiwei joined the Group in April, 2006 and he is the Manager of the Sales Department of Honghua Company. Liu Lulu joined the Group in December, 1997, and is an assistant director in the office in the Technical Centre (技術中心辦公室主任助理) of Honghua Company.
21. Benefit Way was incorporated in the BVI with limited liability on July 7, 2006. It is an investment holding company and is owned approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22% by Dobson Global Inc., Darius Enterprises Limited, Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, respectively.
22. Yang Hong owns 100% of Birdview. Yang Hong joined the Group in July, 2003, and is a secretary in the office administration department of Honghua Company.
23. Birdview was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is wholly-owned by Yang Hong.
24. Ample Chance was incorporated in the BVI with limited liability on July 13, 2006. It is an investment holding company and is owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, as to 36%, approximately 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively.
25. Carlyle Funds entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled “Financial Investors” below.
26. Vincera Group entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled “Financial Investors” below.
27. DPF entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled “Financial Investors” below.
28. Ally Giant was incorporated in the BVI with limited liability on July 10, 2006. It is an investment holding company and is wholly-owned by Ample Chance.
29. IP Cathay entered into the Investment Agreement with Ally Giant and others. For details, please refer to sub-section entitled “Financial Investors” below.
30. COOS entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled “Financial Investors” below.
31. Nabors International (as transferee) entered into a share transfer agreement with Ally Giant (as transferor) and the Company (as warrantor). For details, please refer to the sub-section entitled “Strategic Investor” below.
32. Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. It is an investment holding company and is our wholly-owned subsidiary.
33. HH Egyptian Company was incorporated in Egypt with limited liability on April 24, 2007. It is owned 50% by Asia Harbour and 50% by Petroleum Projects and Technical Consultations Company (25%), Engineering For the Petroleum and Process Industries Company (10%) and Tharwa Petroleum Company (15%). Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company are substantial shareholders of HH Egyptian Company.
34. Honghua Company was established in the PRC on December 31, 1997. It is wholly-owned by Asia Harbour and is our indirect wholly-owned subsidiary.
35. Zhou Bing, Chen Jun and Zuo Huixian are members of the Concert Group, and hold approximately an 3.125%, 2.5% and 2.188% equity interest in Honghua International, respectively.
36. Wang Jiangyang is a member of the Concert Group, and holds approximately 4% of Hongtian Company.

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37. Honghua International was established in the PRC on January 13, 2004. It is owned 80% by Honghua Company and 20% by 13 individuals, Liu Yonghong (approximately 4.000%), Ma Limin (approximately 3.250%), Zhou Bing (approximately 3.125%), Chen Jun (approximately 2.500%), Zuo Huixian (approximately 2.188%), Li Ping (approximately 1.000%), Wang Wei (approximately 0.719%), Zhang Aimin (approximately 0.625%), Chen Honghong (approximately 0.625%), Xue Yuqing (approximately 0.625%), Zhang Wei (approximately 0.500%), Mo Kunrong (approximately 0.469%) and Jiang Ping (approximately 0.375%). Zhou Bing, Chen Jun and Zuo Huixian are members of the Concert Group, and the other shareholders are Independent Third Parties.
38. Youxin Company was established in the PRC on August 7, 1998. It is owned 80% by Honghua Company and as to 20% by nine individuals, namely, Zhao Ping (approximately 4.799%), Zhang Changlun (approximately 4.000%), Ju Lang (approximately 3.000%), Chen Yaling (approximately 1.201%), Lin Ye (approximately 1.000%), Zhuang Jiandong (approximately 1.000%), Xiao Kaiyun (approximately 1.000%), Xie Xiaohong (approximately 3.000%) and Fang Yong (approximately 1.000%). Zhao Ping is a Director of Youxin Company and Fang Yong is the brother-in-law of Wang Jiangyang. The other shareholders are Independent Third Parties.
39. Honghua America was formed in the State of Texas, as a limited partnership on October 11, 2004 and converted into a limited liability company on December 19, 2006. It is owned 80% by Honghua Company and 20% by NCE Management Inc., a substantial shareholder of Honghua America.
40. Hongtian Company was established in the PRC on June 6, 2001. It is owned 80% by Honghua Company and 20% by 12 individual shareholders, namely, Zhang Cong (approximately 9.000%), Wang Jiangyang (approximately 4.000%), Che Mingzhe (approximately 1.200%), Li Qin (approximately 2.400%), Hu Likang (approximately 0.800%), Huang Sheng (approximately 0.600%), Liao Wenzhong (approximately 0.400%), Chen Tao (approximately 0.400%), He Yugang (approximately 0.300%), Luo Laijun (approximately 0.300%), Huang Huijian (approximately 0.300%) and Zheng Liang (approximately 0.300%). Zhang Cong and Wang Jiangyang are Directors of Hongtian Company. Zhang Cong is the brother of Zhang Mi and Wang Jiangyang is a member of the Concert Group, and the other individual shareholders are Independent Third Parties.
41. Golden Coast Company was incorporated in United Arab Emirates with limited liability on November 28, 2006. It is wholly-owned by Honghua International.
42. Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. It is wholly held by Liu Zhi, on trust for Honghua International through a trust arrangement between Liu Zhi and Honghua International (holding one ordinary share of Lucky Wish by Liu Zhi on trust for Honghua International). The Group has, pursuant to a letter issued by the Bureau of Commerce of Sichuan Province dated October 29, 2007, arranged to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations. The Group is currently (i) gathering the financial information of Lucky Wish; (ii) collecting accounts receivables of Lucky Wish; (iii) settling the debts and liabilities of Lucky Wish; and (iv) liaising with BVI counsel for the purpose of closing down Lucky Wish. Lucky Wish will be closed down as soon as the relevant procedures required under BVI law are complete.

Financial Investors

In order to finance the acquisition of our PRC operating subsidiaries and to contribute to the increase in registered capital of Honghua Company, as part of the Reorganization, Ally Giant entered into an Investment Agreement with the Financial Investors on November 29, 2006, as supplemented by an agreement dated March 19, 2007.

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Pursuant to the Investment Agreement, the Financial Investors agreed to subscribe for convertible notes (the “Notes”) in an aggregate principal amount of USD57,000,000, from Ally Giant. The subscription amount (the “Subscription Amount”) paid by each Financial Investor for its respective Note is as follows:

<u>Financial Investors</u>	<u>Subscription Amount (USD)</u>
<i>Carlyle Funds</i>	
Carlyle Asia Growth Partners III, L.P.	10,535,800
CAGP III Co-Investment, L.P.	464,200
Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P.	7,311,700
C/R Energy III Frontier Partnership, L.P.	3,317,600
C/R Energy Coinvestment III (Cayman), L.P.	370,700
Subtotal for Carlyle Funds:	22,000,000
<i>Vincera Group</i>	
Hua VII Venture Capital Corporation	1,800,000
Vincera Growth Capital I Limited	1,200,000
Preen Group Limited	500,000
Sub-total for Vincera Group:	3,500,000
<i>Other Financial Investors</i>	
IP Cathay	1,500,000
DPF	7,000,000
COOS	23,000,000
TOTAL:	57,000,000

Subscription for Notes by the Financial Investors was made following thorough due diligence procedures, analysis of PE multiples of trading comparables at the time as well as evaluation of the potential investment risk. The price was determined by arm’s length negotiations between the Company and Financial Investors. Based on the Financial Investors’ investment amount of USD57,000,000, and the Company’s 432,272,161 issued Shares to Financial Investors, their effective investment per Share in the Company is USD0.1319 or HK\$1.0295. Assuming the mid-point of the indicative share price range of HK\$3.83, the discount percentage of the investment cost paid by the Financial Investors against the IPO Offer Price is 73.1%.

CAGP Funds and Carlyle/Riverstone Funds are private equity funds. CAGP Funds principally focus on investment in fast-growing companies in China, India, Japan and South Korea. Carlyle/Riverstone Funds principally focus on energy-related investments worldwide. CAGP Funds and Carlyle/Riverstone Funds are investment funds within Carlyle Funds. Except for the investment in Ally Giant and the Company by Carlyle Funds, Carlyle Funds has no relationship with IP Cathay, DPF, COOS (as defined below) or Vincera Group (as defined below).

Carlyle Funds is a Financial Investor of the Company. Both the Directors and Carlyle Funds believe that Carlyle Funds’ global network and previous investments and expertise in the energy sector can benefit the Company.

Except for its investment in Ally Giant and the Company, Carlyle Funds is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

Hua VII Venture Capital Corporation (“Hua VII”), a Taiwan-registered private equity fund, and Vincera Growth Capital I Limited (“VGC I”), a BVI-registered private equity fund, are both managed by Vincera Capital.

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Preen Group Limited (“Preen”), a BVI-registered company established for the purpose of co-investments by employees of Vincera Capital. Hua VII, VGC I and Preen are all managed by Vincera Capital. Vincera Capital is a private equity management firm with offices in Taipei and Shanghai. IP Cathay is registered in the BVI and its principal business is venture capital investment. Its major limited partners are Runner Investment Pte Ltd., (Singapore) AXA Capital Asia, LP (France) and Siguler Guff BRIC Opportunities Funds (USA). Except for the investment in Ally Giant or the Company (as the case may be), Vincera Group has no relationship with IP Cathay, DPF, Carlyle Funds or COOS, and IP Cathay has no relationship with Carlyle Funds, Vincera Group, DPF or COOS.

Vincera Group and IP Cathay are Financial Investors of the Company. Both Vincera Group and IP Cathay are Independent Third Parties. They seek financial returns in return for providing funding support to the Company. Vincera Group will continue to explore possible areas of providing value-added services to the Group in terms of introduction of suppliers, customers, strategic partners, etc. and advising on day-to-day operations, financing activities, strategic alliances and visibility in the capital market.

Except for its investment in Ally Giant or the Company, Vincera Group is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

DPF is a joint venture between Value Partners Ltd. and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (a Dutch development bank). DPF invests primarily in private mezzanine instruments of medium-sized enterprises that are domiciled or do business predominantly in mainland China. Except for its investment in Ally Giant or the Company, DPF has no relationship with the other Financial Investors.

DPF is a Financial Investor of the Company. Both the Directors and DPF believe that apart from providing additional capital to support the Group’s capital needs, DPF will provide guidance on the Group’s corporate governance and introduce additional strategic and Financial Investors to the Group.

Except for its investment in Ally Giant and the Company, DPF is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

COOS is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of CNOOC. The CNOOC Group is one of the largest state-owned oil corporations and a dominant offshore oil and gas producer in China. It is principally engaged in six business sectors, including oil and gas exploration and development, technical services, logistics services and new energies developments, chemicals and fertilizer production and refining, natural gas and power generation, and financial services. Except for its investment in Ally Giant or the Company, COOS has no relationship with the other Financial Investors.

The CNOOC Group is one of the largest state-owned oil corporations in China and is an important offshore oil and gas producer in China. It seeks suitable investment opportunities in the oil and gas-related industries, from time to time, and it considers the Notes issued by Ally Giant to be a suitable investment opportunity.

Except for its investment in Ally Giant, COOS is independent from and not connected with the Company (and its subsidiaries), the Directors, or the shareholders of the Company.

Pursuant to the terms of the Note Instrument, all the Notes must be converted into shares of Ally Giant (or exchanged into Shares of the Company) at an initial conversion rate as described below (the “Conversion Ratio”), automatically and concurrently upon receipt of a listing approval for a Qualified IPO (as defined below), from an Approved Stock Exchange (as defined below).

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“Qualified IPO” means an underwritten registered initial public offering of the shares of Ally Giant (or the Shares of the Company) on an Approved Stock Exchange, at a pre-offering valuation of Ally Giant of at least twice the 2006 Total Company Valuation, and raising at least US\$80 million by way of a new issuance and/or offer for sale and/or placement of its securities. A Qualified IPO shall be deemed to have taken place on the date on which dealings in the Shares commences on the Approved Stock Exchange.

“2006 Total Company Valuation” means four to six times the net income of Ally Giant for the year ended December 31, 2006, excluding all option-related expenses in connection with the issuance and conversion of the Notes (“2006 Net Income”), as calculated in accordance with the formula below.

“Approved Stock Exchange” means inter alia, the Stock Exchange.

The initial Conversion Ratio is defined as the ratio which will result in the percentage of Ally Giant’s shares being owned by the Financial Investor (the “Investor’s Ownership in Ally Giant”), on a fully-diluted basis, as determined by the following formula:

- (a) If the net income of Ally Giant for the year ended December 31, 2007, excluding all option-related expenses in connection with the issuance and conversion of the Notes (“2007 Net Income”), grows at a rate equal to or greater than 40% over the year 2006, the Investors’ Ownership in Ally Giant = the Subscription Amount / (Ally Giant’s 2006 Net Income * 6), in which case 2006 Total Company Valuation shall be 6 times Ally Giant’s 2006 Net Income;
- (b) If Ally Giant’s 2007 Net Income grows at a rate of equal to or greater than 30% but less than 40% over the year of 2006, the Investors’ Ownership in Ally Giant = the Subscription Amount / (Ally Giant’s 2006 Net Income * 5.5), in which case 2006 Total Company Valuation shall be 5.5 times of Ally Giant’s 2006 Net Income;
- (c) If Ally Giant’s 2007 Net Income grows at a rate of equal to or greater than 20% but less than 30% over the year of 2006, the Investors’ Ownership in Ally Giant = the Subscription Amount / (Ally Giant’s 2006 Net Income * 5), in which case 2006 Total Company Valuation shall be 5 times of Ally Giant’s 2006 Net Income; or
- (d) If Ally Giant’s 2007 Net Income grows at a rate of less than 20% over the year of 2006, the Investors’ Ownership in Ally Giant = the Subscription Amount / (Ally Giant’s 2006 Net Income * 4), in which case 2006 Total Company Valuation shall be 4 times of Ally Giant’s 2006 Net Income.

Notwithstanding the foregoing, if there occurs a Qualified IPO before the 2007 Net Income becomes available, the Investors’ ownership shall be calculated as set out below.

Under the terms of the Note Instrument, if the 2007 Net Income is less than 40% in 2006, Ally Giant must use its best efforts to cause Ally Giant (or the Company, as the case may be) to issue, within five business days after the availability of the 2007 Net Income, additional shares to the Financial Investors, on a pro rata basis, so that the aggregate amount of the outstanding Shares held by the Financial Investors after such issuance will be equal to the applicable amount calculated pursuant to the relevant formula as if the 2007 Net Income had been available to the parties before the occurrence of such Qualified IPO. This term will survive Listing.

Pursuant to the above conditions, the conversion price (“Conversion Price”) applicable to the Notes shall be the result of dividing (i) the aggregate Principal Amount of all Notes by (ii) the Common Stock Equivalent Outstanding (as defined below) multiplied by the applicable Conversion Ratio, subject to adjustment for stock splits, stock dividends, recapitalization or any other similar events.

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“Common Stock Equivalent Outstanding” means the number of shares in Ally Giant equal to the sum of (a) all shares of Ally Giant outstanding at the time in question, plus (b) all shares of Ally Giant issuable upon conversion of all Notes, or other shares or securities directly or indirectly convertible into or exchangeable for the shares of Ally Giant (“Convertible Securities”), that are outstanding at the time in question, plus (c) all shares of Ally Giant that are issuable upon the exercise of options outstanding at the time in question, assuming that the conversion or exchange into the shares of all such options is to purchase or acquire Convertible Securities into or for the shares of Ally Giant.

On October 16, 2007, all the Financial Investors agreed to convert their Notes into Shares of the Company, notwithstanding that the 2007 Net Income was not yet available. As a result, the Financial Investors received an aggregate of approximately 17.3% of our issued share capital. Details are as follows:

<u>Financial Investors</u>	<u>Approximate percentage of interest immediately before Global Offering(%)</u>	<u>Approximate percentage of interest immediately after Global Offering (assuming no exercise of the Over-allotment option) (%)</u>
<i>Carlyle Funds</i>		
Carlyle Asia Growth Partners III, L.P.	3.2	2.4
CAGP III Co-Investment, L.P.	0.2	0.1
Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P.	2.2	1.7
C/R Energy III Frontier Partnership, L.P.	1.0	0.7
C/R Energy Coinvestment III (Cayman), L.P.	0.1	0.1
Sub-total:	6.7	5.0
<i>Vincera Group</i>		
Hua VII Venture Capital Corporation	0.5	0.4
Vincera Growth Capital I Limited	0.4	0.3
Preen Group Limited	0.1	0.1
Sub-total:	1.0	0.8
<i>Other Financial Investors</i>		
IP Cathay	0.5	0.4
DPF	2.1	1.6
COOS	7.0	5.2
Total:	17.3	13.0

Ally Giant and the Financial Investors have agreed to make adjustment by way of transfer of shares in our Company between themselves, in accordance with the formula set out in the Note Instrument, as soon as reasonably practicable after the availability of the 2006 Net Income and the 2007 Net Income figures, subject to compliance with the Listing Rules.

As a result of the above transactions, the Financial Investors became our Shareholders, holding an aggregate of approximately 17.3% of the issued share capital of our Company, immediately before completion of the Global Offering, and approximately 13.0% immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Financial Investors will hold less than 10% issued shares in the Company immediately before the Global Offering. None of them are connected persons of our Company. Their subscription was financed by their own funds and not financed, directly or indirectly, by any connected person of our Company. None of the

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Financial Investors is required to take instructions from a connected person of our Company, in relation to the acquisition, voting or disposition of securities of our Company registered in its name or otherwise held by it. The Financial Investors will be regarded as public Shareholders of our Company. The Financial Investors have undertaken to each of our Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors to be subject to a six-month lock-up period. For details, please refer to the sub-section entitled “Undertakings”, in the “Underwriting” section of this Prospectus.

The total subscription amount of USD57,000,000, was, at the direction of Ally Giant paid to Asia Harbour as to USD34,000,000, on or about December 6, 2006 and as to USD23,000,000 on March 30, 2007. US dollars equivalent to RMB155,000,000 were used to pay the purchase price for all of the equity interests in Honghua Company purchased from the then existing shareholders of the company. US dollars equivalent to RMB53,250,000 were used to increase the registered capital of Honghua Company from RMB18,750,000 to RMB72,000,000. The balance will be used for the working capital and investments of our Group. All the subscription money has been released from the applicable escrow accounts.

The Financial Investors and Ally Giant amongst others entered into the Investors’ Rights Agreement on November 29, 2006 (as supplemented by a supplemental agreement dated 30 March 2007).

Each of Carlyle Funds and COOS has the right to nominate one Director of the Company for so long as they remain a holder of any notes or any Shares converted therefrom. The Director nomination rights of Carlyle Funds and COOS will be terminated upon the Listing together with the termination of the Investors’ Rights Agreement.

Within 18 days after March 30, 2007, the Financial Investors and Ample Chance may jointly appoint one Independent Director for the Company, and jointly remove or replace the said Independent Director.

The board of directors of each of Asia Harbour and Honghua Company consist of the same persons as the board of directors of Ally Giant. The board of directors of each of Youxin Company, Honghua International and Hongtian Company each consists of five directors, and the Financial Investors have the right to appoint one out of the five on each board.

Ally Giant and its subsidiaries may not engage in certain actions or transactions without the prior written consent of the Financial Investors holding 60% of the principal amount of the Notes then outstanding, such as a change in core business, sale or issue of equity, or transfer of interest in subsidiaries. The Financial Investors also enjoy (a) pre-emptive rights in the new issue of shares (except for those issued under the Pre-IPO Share Option Scheme); (b) the right of first refusal for disposition of Shares by selling shareholder(s); (c) tag-along rights to sell together with the Existing Shareholders; and (d) rights to receive business information from, budgets for and financial statements of the Group and to have access to assets, properties, books and records of the Group.

The Investors’ Rights Agreement will terminate upon Listing, and all rights and obligations thereunder shall cease immediately upon such termination.

Strategic Investor

Nabors Industries is a company listed on the New York Stock Exchange. Nabors Industries, through various operating subsidiaries, conducts oil, gas and geothermal land drilling operations in the United States, Canada, Central and South America, the Middle East, the Far East and Africa, and provides various ancillary products and services.

Our relationship with Nabors Group can be traced back to early 2005, when we started exploring business opportunities in the U.S. At that time, Nabors Group came to China in search of manufacturers that could provide

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Nabors Group with a stable supply of quality rigs and related parts and components, at competitive prices, to suit its business needs. Following several meetings between representatives of Nabors Group and Honghua Company in both the PRC and the U.S., both parties agreed to establish a strategic business relationship. A series of agreements were entered into between Honghua Company and Nabors Group. These agreements included a Confidentiality Agreement, dated April 24, 2005, a Memorandum of Agreement dated April 24, 2005, a Master Sales Agreement dated May 18, 2005, Heads of Agreement dated August 9, 2005, a Representative Agreement dated November 7, 2005, and several purchase orders as well as other ancillary documents and correspondence (collectively, the “Previous Agreements”). For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, Nabors Group was our largest customer, accounting for approximately 0%, 17.9%, 64.0% and 32.3% of our revenue, respectively, and was one of our five largest customers who together accounted for approximately 84.3%, 72.8%, 80.2% and 65.2%, of our revenue, during those periods.

Several disputes arose between Honghua Company and Nabors Group, concerning the performance of, understandings reached in and discussions relating to the Previous Agreements and the transactions contemplated therein. In June, 2007, an arbitration (the “Arbitration”) was initiated between Nabors International and Honghua Company, before the International Court of Arbitration of the International Chamber of Commerce in which both parties made claims and counterclaims against each other. For details of the dispute, please refer to the subsection headed “Dispute with Nabors” under the section entitled “Legal Proceedings” of the Prospectus. Having considered the demand for stable supply of rigs, parts and components by Nabors Group and the closer business relationship between our Group and Nabors Group after Nabors Group’s investment as a Substantial Shareholder of our Company, Nabors International agreed to accept the transfer of 18% of the issued share capital of the Company by Ally Giant, instead of the previously tabled up to 50% of the interest in Honghua Company. The 18% agreed between Honghua Company and Nabors Group was the result of several rounds of discussions and negotiations between the parties based on the proposals between September 2006 and November 2006, namely that Nabors would invest partially in kind in the form of a technology license and partially in cash of approximately US\$6.864 million for an approximately 25% equity interest in Honghua Company. However, Honghua Company and Nabors Group failed to reach a final agreement on Nabors Group’s proposed investment primarily (from the Group’s point of view) due to lack of agreement on the technology to be licensed by Nabors Group. After the parties resumed their discussions, both Honghua Company and Nabors Group agreed that no investment in cash by Nabors Group was required and following further extensive negotiations, and the eventual conclusion of an agreement, between the parties on the technology licensing, the figure of 18% of the issued share capital of the Company was settled upon. The Company also agreed to accept a technology license granted by Nabors Global in return as an overall settlement package. For the purposes of settling their disputes amicably and moving forward to continue to build a strategic business relationship, Nabors International and Honghua Company entered into a Settlement Agreement, on October 17, 2007, concurrently with the execution of the Share Transfer Agreement, the Technology License Agreement and the Mutual Release. The amount of outstanding receivables and payables from Nabors Group immediately prior to the date of the Settlement Agreement, i.e. October 17, 2007 was approximately US\$56.7 million (equivalent to approximately RMB425.5 million) and US\$8.2 million (equivalent to approximately RMB61.8 million). The US\$8.2 million represented the purchase money payable by Honghua Company to Nabors Group for the purchase of spare parts and components by Honghua Company from Nabors Group. The Company confirmed that all the aforesaid outstanding receivable amounts have been fully collected from Nabors Group. All these Settlement Documents were completed on October 17, 2007.

Principal terms of the Settlement Agreement are set out below.

Nabors International and Honghua Company agreed, and Honghua Company agreed to procure Ally Giant as transferor, to enter into the Share Transfer Agreement with Nabors International as transferee and the Company as warrantor on October 17, 2007.

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Nabors International would remit to Honghua Company or the appropriate Honghua Company affiliate the sum of US\$56,726,745.15 and Honghua Company would remit to Nabors International the sum of US\$8,239,255.77, which sums together (the “Agreed Amounts”) represent the total agreed amounts due and owing between the parties as of October 17, 2007, whether pursuant to the Previous Agreements or otherwise. Honghua Company and Nabors International agreed that payment of the Agreed Amounts would be in full and final settlement of all claims of any nature whatsoever which either party and/or its affiliates and/or assignees had or might have against the other party in connection with or arising out of all invoices issued and amounts owed or claimed to be owed under the Previous Agreements. Pursuant to the Settlement Agreement, and on December 7, 2007, the parties acknowledged settlement of the Agreed Amounts on December 7, 2007.

The parties further agreed that the Previous Agreements would be terminated as of October 17, 2007. The Previous Agreements would thereafter be null and void and the parties would be released and discharged absolutely from their respective obligations and liabilities under the Previous Agreements.

Upon signing of the Settlement Agreement on October 17, 2007, the parties executed the Mutual Release, under which, and on the same date, Nabors Global and the Company executed the Technology License Agreement and caused their respective legal counsel to inform the International Court of Arbitration to discontinue and withdraw their respective claims and counterclaims asserted in the Arbitration. The International Court of Arbitration notified the parties in writing of acknowledgement receipt of their request for the withdrawal of the claims on October 22, 2007.

Principal terms of the Mutual Release are set out below.

Each of Nabors International and Honghua Company, for and on behalf of itself and its respective parent, subsidiary and affiliated companies, released and discharged the other and their respective parent, subsidiary and affiliated companies, from any and all causes of action, suits, claims, demands, liabilities and obligations arising out of or related to their commercial relationship and arising prior to the date of the Mutual Release. Such release includes but is not limited to claims arising out of the Previous Agreements and claims asserted by Nabors International and Honghua Company in the Arbitration.

The parties represented, agreed and undertook that they would endeavor in good faith to develop a framework for a strategic business relationship. As a result, Nabors Group through Nabors Industries and the Group through the Company entered into the Strategic Cooperation Agreement on November 3, 2007 to set out a framework for future cooperation, details of which are set out on pages 124 to 125 of this Prospectus.

Principal terms of the Share Transfer Agreement are set out below.

Ally Giant transferred 18% of the issued and outstanding share capital in our Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or shares to be issued pursuant to the Listing, to Nabors International in consideration for a license of the technology granted by Nabors Global to the Company pursuant to the Technology License Agreement entered into between Nabors Global and the Company on October 17, 2007 and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The “premises, covenants and agreements” contained in the Share Transfer Agreement referred to an overall settlement package between Nabors Group and the Group whereby the parties agreed that upon the transfer of 18% of the issued share capital of the Company by Ally Giant to Nabors International, Nabors Global would grant a technology license to the Company. The share transfer was completed on October 17, 2007.

The consideration of the above share transfer was determined based on (i) the proposal exchanged between the parties on the valuation of the Group between September 2006 and November 2006; (ii) the valuation of the Group agreed with Financial Investors in November 2006 and March 2007; and (iii) such factors

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including the license of the technology and the promotion of our product image by Nabors Group and the inclination of Nabors Group to give more business opportunities to our Group after becoming a substantial Shareholder of our Company.

Nabors International is entitled to appoint an observer to the Board of Directors of our Company to attend all meetings of the Board in a non-voting capacity for so long as it remains a holder of any Shares of our Company, and our Company shall provide to such Board observer, concurrently with the Directors and in the same manner, notice of such meetings and copies of all materials provided to the Directors. This right will be terminated upon Listing. Nabors International has not appointed any observer to the Board of the Company. Neither the Company nor any of its subsidiaries has the present intention to appoint any additional directors to be nominated by Nabors Group, and there will be no change in the current management or strategic direction in any member of the Group in the foreseeable future.

Nabors International enjoys the same rights as the Financial Investors under the Investors' Rights Agreement : (a) pre-emptive rights in the new issue of shares (except for those issued under the Pre-IPO Share Option Scheme); (b) the right of first refusal for disposition of Shares; (c) tag-along rights to sell together with the Existing Shareholders pro rata their interest in the Company at the same price and on terms offered to the Existing Shareholders by the proposed purchaser; and (d) rights to receive business information from, budget for and financial statements of the Group and to have access to books and records of the Group. All these rights will be terminated upon Listing.

Nabors International is not allowed to transfer any Shares in our Company prior to the Listing. Following the Listing, any transfer of our Shares shall comply with applicable laws and regulatory requirements.

Nabors International and Ally Giant agreed that if the Listing is not completed by August 31, 2008, Nabors International shall be free to transfer its Shares at any time, provided that such transfer meets applicable legal requirements; and further provided that, for a period of two years after October 17, 2007, and if the Listing has not yet occurred, Nabors International shall not transfer its Shares to any person, other than one of its affiliates, without first offering, to Ally Giant the opportunity to purchase such shares on the same terms and conditions as the intended transfer and that Nabors International shall not sell all or any portion of its Shares at any time prior to the Listing to certain competitors of the Group.

Nabors International has the right to sell up to 5% of the Shares in our Company, without any lock-up, subject to the requirements of the Stock Exchange. Nabors International has confirmed that it will not exercise such right. With respect to the remaining Shares held by Nabors International, Nabors International has undertaken to our Company to be subject to a six-month lock-up period. In the event that the Stock Exchange requires a lock-up period in excess of six months, Nabors International will have preferential rights to sell its Shares during such longer lock-up period vis-a-vis any Controlling Shareholder. In such event, no Controlling Shareholder shall be permitted to sell its Shares without first offering to Nabors International the opportunity to sell all or any portion of its Shares.

Nabors International will be viewed as a group with Ally Giant after the Listing. The 18% equity (450,000,000 Shares) held by Nabors International will be subject to the lock-up requirement under Rule 10.07 of the Listing Rules.

Please refer to the "Undertakings" section under the "Underwriting" section of the Prospectus for details of the lock-up arrangements.

Nabors International has agreed that for so long as it owns more than 5% of the total issued and outstanding Shares of our Company, on a fully-diluted basis, neither Nabors International nor any of its affiliates shall own an equity interest of more than 5% of the total equity in certain competitors of the Group.

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In consideration of the Ally Giant agreeing to transfer to Nabors International 18% of the issued share capital of the Company and the premises, promises and consideration contained therein, Nabors Global and the Company entered into the Technology License Agreement on October 17, 2007.

Nabors Global is a wholly-owned subsidiary of Nabors Industries and owns or has the right to use certain technology, rights, trade secrets, and confidential information pertaining to apparatus and methods for oil drilling and gas wells.

Principal terms of the Technology License Agreement are set out as follows:

Nabors Global grants to the Company, subject to the terms and conditions set forth therein, a personal, indivisible, nontransferable, nonexclusive, royalty-free license to use whatever conceptual drawings, module drawings, drilling position drawings, assembly drawings, specifications, written descriptions, manufacturing techniques, method of operations, know how, and engineering data information Nabors Global has or has the right to use with respect to the products, namely 2,000 HP API Offshore Platform Rig, 3,000 HP Land Drilling Rig, 1,500 meter Hybrid Coiled Tubing Rigs with Drill Pipe Capability using integrated Top Drive, MWD System, Workover Rig, jack-up rig, Barge Rig - 3000 HP and MASER 2000 HP platform rig (collectively, the "Technology") for the Group's own internal purposes in fabricating and producing equipment for sale to its customers and, except as provided in the Technology License Agreement, the grant of the licenses shall be on a worldwide basis.

The Company may not sublicense, lease or lend the Technology to others, save and except to any members of the Group.

The Company may not transfer, sell, pledge, or mortgage all or any portion of the Technology or subject matter claimed or embodied therein to others.

Nabors Global also grants an implied license to the Company's customers to use the Technology and the intellectual property rights of Nabors Global solely to the extent they are incorporated in the licensed products sold by the Group to its customers for their intended purpose.

Nabors Global represents, warrants and undertakes to the Company that to the extent provided in the Technology License Agreement, (a) it has full rights to license the Technology to the Company; (b) the use of the Technology for the purposes previously used by Nabors Global will not infringe the rights of any third party worldwide; (c) all documents and information provided pursuant to the Technology License Agreement in relation to the Technology supplied and to be supplied to the Company are true, accurate and complete copies of the documents in Nabors Global's possession and control and represent all documents and information Nabors Global has in its possession and control in respect of the Technology; and (d) the Technology has been used and applied by Nabors Global in the manner or manners at closing or within ten days of closing.

Except as expressly provided in the Technology License Agreement, Nabors Global makes no representations or warranties with respect to the Technology and expressly disclaims any and all warranties, express or implied, including without limitation any implied warranties of merchantability or fitness for purpose.

All improvements, enhancements and modifications of the Technology made or to be made by the Company during the term of the Technology License Agreement shall belong to the Company, and if made or to be made by Nabors Global shall belong to Nabors Global.

In return for the consideration described in the Settlement Agreement (together with the Share Transfer Agreement, the Technology License Agreement and other ancillary agreements, the "Previous Agreements") dated October 17, 2007 between Nabors International and Honghua Company, each of the parties, for and on

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behalf of itself and its respective parent, subsidiary and affiliated companies, executed the Mutual Release on October 17, 2007 to release and discharge the other and their respective parent, subsidiary and affiliated companies, and the officers, agents, attorneys, directors, heirs, assigns, and employees of each, from any and all causes of action, suits, claims, demands, liabilities and obligations arising out of or related to their commercial relationship and arising prior to the date of the Mutual Release, including but not limited to claims arising out of the Previous Agreements; these claims also include, but are not limited to claims asserted, or which could have been asserted, by the parties in the Arbitration, whether such causes of action, suits, claims, demands, liabilities and obligations arise in law or in equity and whether known or unknown as of the date of either the Settlement Agreement or the Mutual Release. The parties have irrevocably agreed that they will not have any further demands or claims of any nature whatsoever against each other in respect of the Previous Agreements.

There are no special rights not generally available to all public Shareholders.

As a result of the above share transfer, Nabors International became one of our Shareholders, holding an aggregate of 18% of the issued and outstanding share capital of our Company before completion of the Global Offering and approximately 13.5% of the issued share capital of our Company upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. As Nabors International will hold more than 10% of the issued share capital of the Company immediately after the Global Offering, Nabors International will be a substantial Shareholder of our Company and thus, a connected person of our Company under the Listing Rules. Nabors International will not, therefore, be regarded a public Shareholder of our Company.

The parties have settled the dispute and Arbitration with, inter alia, the payment of the Agreed Amounts. As confirmed by the Company, no sales to Nabors Group have been written off or partially waived and all the outstanding receivable amounts due from Nabors Group had been fully collected from Nabors Group. As a result of the disputes and Arbitration since December 2005, apart from the purchase orders that had already been received, the Group received no purchase orders relating to rigs from Nabors Group. In 2006, a total of 45 rigs were sold and delivered to Nabors Group under the purchase orders placed by Nabors Group before 2006 and the total sales value thereunder was approximately RMB1,467,400. Despite the Group and Nabors Group reaching a settlement and entering into the Strategic Cooperation Agreement in November 2007, it may take some time for the parties to perform the terms therein.

Our Group has replenished the loss of Nabors Group's order by selling our drilling rigs to the Russian, Pakistan, Indonesian and Brazil markets in 2007. The number of drilling rigs sold to these markets has exceeded that sold to Nabors Group. For the period between 2006 and 2007, the Company has increasingly developed its international market with new customers. In 2006, the Company contracted with new customers for 22 rigs in the international market. From January to November 2007, the Company also contracted to sell 52 rigs in the international market, amongst which 46 rigs are sold under contracts with new customers.

At the same time, we have been successful in exploring new markets for the following reasons:-

- (a) we have established production, sales and after-sales services operations base or have developed agency or partnership relationships in North America, the Middle East, Russia and Southeast Asia;
- (b) our products are internationally competitive in terms of quality and price;
- (c) our drilling rigs currently in operation globally have won us brand recognition;
- (d) our Group can further develop and/or expand internationally without any restrictions after entering into the Settlement Agreement; in particular, the restrictions imposed on our Group to sell in the North America market were released.

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Meanwhile, the Group has successfully developed other new markets since 2006, such as Russia, to capture the rising demand for rigs. For example, in the eight months ended August 31, 2007, we sold six rigs and rig parts and components amounting to RMB92,212,000 in the Russian market through Izhdrill-Honghua. In Egypt, we formed a joint venture, HH Egyptian Company with three Egyptian enterprises who are all Independent Third Parties. As of the Latest Practicable Date, Honghua Company has contracted with HH Egyptian Company to sell three rigs in 2007 and has entered into a memorandum of understanding to sell seven rigs to HH Egyptian Company in 2008. As a major base for the Company's manufacturing, selling and testing of rigs as well as after sale services in North Africa and adjacent regions, HH Egyptian Company is important to the market development of the Group. We received advance payments from HH Egyptian Company during the first eight months of 2007 in the sum of approximately RMB119,151,000 in respect of orders for digitally-controlled VFD rigs. Please refer to the "Formation of HH Egyptian Company" section in this Prospectus for details. The Directors have reviewed and confirmed that there is no material impact on the profit estimate for the year ended December 31, 2007 as a result of the disputes, Arbitration and settlement.

On November 3, 2007, to further strengthen the strategic business relationship, and to establish the framework for future cooperation, Nabors Group, through Nabors Industries, and our Group, through the Company, entered into a Strategic Cooperation Agreement.

Principal terms of the Strategic Cooperation Agreement are as follows:

- (a) Our Group will be a preferred supplier of drilling rigs to Nabors Group and a significant portion of Nabors Group's future demand for drilling rigs, drilling equipment, and spare parts will be fulfilled by our Group on attractive terms. Nabors Group will enter into discussions with our Group to manufacture one 3000 HP land rig, to be built in accordance with Nabors Group's specifications for its Middle East operation.
- (b) Nabors Group grants our Group the status of a preferred supplier in its supply chain of spare and replacement parts and components, and supports our Group's desire to become a globally-competitive provider of spare and replacement parts and components for drilling rigs. Whenever there is a demand for parts and components, Nabors Group will first negotiate with the Group and will give preference to the Group provided that the products offered by the Group meet Nabors' requirements in terms of price, quality, terms and delivery and subject to the Group's production capacity.
- (c) Nabors Group, as a strategic partner, agrees to discuss with Honghua Company, in good faith, the right to a leading role in the manufacture of the next new jack-up rig or platform rig that Nabors Group commissions.
- (d) Our Group, as Nabors Group's strategic partner, to the extent possible, will provide Nabors Group with priority in production allocation, to meet Nabors Group's demand in drilling rigs.
- (e) Nabors Group will enjoy our Group's favourable prices (provided that the pricing and other terms meet the requirements of the Stock Exchange and/or other applicable rules and regulations) for rig manufacture, after-sales services, and technical support. The "favourable price for rig manufacture and after-sale services and technical support" to be enjoyed by Nabors Group will be the same as that for other key customers. The Group will offer discounts to customers whose total purchases meet certain criteria prescribed by the Group.
- (f) Each party will leverage its global customer network to promote the other's equipment and services, for both onshore and offshore operations.
- (g) The parties will arrange for their own subsidiaries or affiliates to fulfill the Strategic Cooperation Agreement, in order that the parties can exploit the current fast growth in the petroleum industry, improve their competitive advantages, and benefit both parties' shareholders.

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- (h) Any transactions entered into by the parties will be subject to disclosure and approval requirements prescribed by the Listing Rules, and/or other applicable rules and regulations.
- (i) The Strategic Cooperation Agreement will remain valid until it is terminated by either party with or without cause upon 60 days advance written notice provided to the other party.

The Strategic Cooperation Agreement is only an agreement setting out the parties' business relationship or arrangements in principle. There is no right, obligation or responsibility granted to the respective parties by our Group's status as the preferred supplier of Nabors Group. Notwithstanding this, provided that our Group can meet the technical standards and specifications required by Nabors Group and can offer satisfactory delivery, quality, warranty terms and prices desirable to Nabors Group, Nabors Group shall give priority to products from our Group and will consider purchasing from our Group at least 25% of Nabors Group's actual annual demand for the Group's products.

Upon Listing, the pricing policy will be determined in accordance with (i) the price set by the relevant governmental departments (if applicable); (ii) market price; (iii) independent valuation; and (iv) through negotiation. The Group will comply with Chapter 14A of the Listing Rules and other factors to be taken into account including whether (i) the transaction is in the ordinary course of business of the Group; (ii) the transaction is on normal commercial terms; and (iii) the terms are fair and reasonable and in the interests of the Shareholders as a whole.

As the oil and gas-related industry is highly volatile, the demand for rigs, parts and components and the price are subject to fluctuations. As at the Latest Practicable Date, the parties have not reached a definitive legally binding master agreement or agreement in similar nature and there is no agreed minimum annual purchase amount by Nabors Group or the anticipated portion of the Group's productivity capacity that will be allocated to Nabors Group's orders pursuant to the Strategic Cooperation Agreement. Nabors Group has verbally indicated that whenever Nabors Group places purchase orders for rigs, parts and components, it will first enquire of the Group concerning price, quality, delivery and production capacity. If the Group can meet Nabors Group's requirements, Nabors Group will purchase the rigs, parts and components from the Group.

Nabors Group is the largest land drilling contractor in the world and conducts the business of oil, gas and geothermal land drilling operations and other ancillary services. The purchase of the Group's products by Nabors Group is in fact an indication of confidence of the Group's ability to manufacture rigs, parts and components of satisfactory quality to be accepted by a leading player in this industry. Nabors Group does not significantly participate in the business of manufacturing and sale of rigs, or spare parts, and is in fact the end-user of the Group's products. To the best knowledge, information and belief of the Directors and having made all reasonable enquires, the Group is not in any potential competition with Nabors Group and there is no non-competition restriction after settlement with Nabors Group. On the other hand, as our Substantial Shareholder and strategic partner, we believe Nabors Group will bring us the technology that we currently do not have and promote our product image. In addition, the equity investment aligned Nabors Group's interests with our interests, thus ensuring Nabors Group, the largest land drilling contractor in the world, will be more inclined to give business opportunities to our Group.

The Group and Nabors Group are working on a detailed business plan and a post-settlement business arrangement. Following the Listing, any transaction to be entered into between the Group and Nabors Group will constitute a connected transaction of the Company under the Listing Rules. Upon execution of a definitive legally binding master agreement or agreement in similar nature between the parties, the Company will take actions as appropriate in compliance with all requirements under Chapter 14A of the Listing Rules.

COMPANY HISTORY AND REORGANIZATION

Management Continuity

Listing Rules

Pursuant to Rule 8.05(1) of the Listing Rules, to meet a profit test, a new applicant must have an adequate trading record under substantially the same management and ownership. Rule 8.05(1)(c) of the Listing Rules provides that the new applicant or its group must, among other criteria, satisfy ‘management continuity for at least the three preceding financial years’.

Honghua Company

Honghua Company was established in the PRC on December 31, 1997, and conducts the principal activities of manufacturing petroleum equipment. Since Honghua Company was the first company in the Group, all the decisions for purchases, production, sales and marketing, research and development and finance are made in Honghua Company, while other subsidiaries, namely, Youxin Company, Honghua International, Hongtian Company, Honghua America, Lucky Wish, Golden Coast Company and HH Egyptian Company, follow the decisions and directions of Honghua Company.

Below is a summary of the management continuity of Honghua Company during the Track Record Period.

<u>As of January 1, 2004</u>	<u>As of August 17, 2006</u>	<u>As of March 9, 2007</u>	<u>As of November 30, 2007</u>	<u>As of the Latest Practicable Date</u>
Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)
Ren Jie	Ren Jie	Ren Jie	Ren Jie	Ren Jie
Zhang Xu	Zhang Xu	Zhang Xu	Zhang Xu	Zhang Xu
Wang Yaoxin	Wang Yaoxin	Wang Yaoxin	Wang Yaoxin	Wang Yaoxin
Deng Meng	Liu Zhi	He Sean Xing	He Sean Xing	He Sean Xing
Song Shuqing	Zheng Yong	Wang Qi	Xiang Qingsheng	Xiang Qingsheng
Zhi Rongmu				
Shi Shuming				

As of January 1, 2004, the commencement of the Track Record Period, the board of directors of Honghua Company consisted of eight members, Zhang Mi, Ren Jie, Zhang Xu, Wang Yaoxin, Deng Meng, Song Shuqing, Zhi Rongmu and Shi Shuming. Among them, only Zhang Mi, Ren Jie and Zhang Xu, who are members of the Concert Group, and executive directors of Honghua Company; while the other directors, Wang Yaoxin, Deng Meng, Song Shuqing, Zhi Rongmu and Shi Shuming, were non-executive directors and did not participate in the overall business, strategy, operational management and decision-making of Honghua Company during the Track Record Period.

On August 17, 2006, shareholders’ resolutions were passed to approve the resignation of Deng Meng, Song Shuqing, Zhi Rongmu and Shi Shuming as non-executive directors of Honghua Company and the appointment of Liu Zhi and Zheng Yong as executive directors of Honghua Company, all with effect from the date thereof. The board of directors of Honghua Company then consisted of six members, namely Zhang Mi, Ren Jie, Zhang Xu, Liu Zhi and Zheng Yong, as executive directors and Wang Yaoxin, as non-executive director.

On March 9, 2007, Asia Harbour, as the sole shareholder of Honghua Company, approved the resignation of Liu Zhi and Zheng Yong as executive directors of Honghua Company and appointed He Sean Xing and Wang

COMPANY HISTORY AND REORGANIZATION

Qi, nominees of the Financial Investors, (Carlyle Funds and DPF respectively), as non-executive directors. Upon such appointments, the board of directors of Honghua Company consisted of six members, namely, Zhang Mi, Ren Jie and Zhang Xu, as executive directors and Wang Yaoxin, He Sean Xing and Wang Qi, as non-executive directors. None of the non-executive directors of Honghua Company have participated in the daily operations and management of Honghua Company.

On November 30, 2007, Asia Harbour approved the resignation of Wang Qi as non-executive director of Honghua Company and appointed Xiang Qingsheng as non-executive director of Honghua Company with effect from that date. The board of directors of Honghua Company then comprised six members, namely Zhang Mi, Ren Jie and Zhang Xu, as executive directors and Wang Yaoxin, He Sean Xing and Xiang Qingsheng, as non-executive directors.

Honghua Company has been the principal operating subsidiary of the Group and the main profit contributor to the Group, during the Track Record Period. At all times during the Track Record Period, Zhang Mi, Ren Jie and Zhang Xu have been executive directors of Honghua Company and have actively participated in the daily operations and management.

Youxin Company

Youxin Company was established in the PRC on August 7, 1998, and has conducted the principal activity of manufacturing parts for drilling rigs.

Below is a summary of the management continuity of Youxin Company during the Track Record Period.

<u>As of August 23, 2006</u>	<u>As of December 8, 2006</u>	<u>As of the Latest Practicable Date</u>
Zhao Ping (Chairman)	Zhao Ping (Chairman)	Zhao Ping (Chairman)
Dai Huayin	Ren Jie	Ren Jie
Liu Hongbin	Zhang Changlun	Zhang Changlun

As of August 23, 2006, the date of completion of the acquisition of a 80% equity interest of Youxin Company by Honghua Company, the board of directors of Youxin Company consisted of three members, namely, Zhao Ping, Dai Huayin and Liu Hongbin, all executive directors.

On December 8, 2006, shareholders' resolutions were passed to approve the resignation of Dai Huayin and Liu Hongbin as executive directors of Youxin Company, and the appointment of Ren Jie as non-executive director and Zhang Changlun as executive director of Youxin Company with immediate effect. The board of directors of Youxin Company then consisted of Zhao Ping and Zhang Changlun, as executive directors, and Ren Jie, as a non-executive director.

Youxin Company has, to date, followed the directions and decisions of Honghua Company in operating, managing and running its business. Honghua Company has not, therefore, as yet, nominated further representatives to the board of Youxin Company but reserves the right to do so at a later date should it consider that further control of Youxin Company is required.

Honghua International

Honghua International was established in the PRC on January 13, 2004, and has conducted the principal activity of trading in drilling rigs and related parts.

COMPANY HISTORY AND REORGANIZATION

Below is a summary of the management continuity of Honghua International during the Track Record Period.

As of January 13, 2004
(being the first directors)

Zhang Mi
(Chairman)

Ren Jie

Liu Zhi

Zuo Huixian

Liu Xuetian (who passed away on January 23, 2008)

Di Xiaohong

Luo Qiping

As of the Latest Practicable Date

Zhang Mi
(Chairman)

Ren Jie

Liu Zhi

Zuo Huixian

Liu Xuetian (who passed away on January 23, 2008)

Di Xiaohong

Luo Qiping

Since its establishment on January 13, 2004, Zhang Mi, Ren Jie, Liu Zhi, Zuo Huixian, Liu Xuetian (deceased), Di Xiaohong and Luo Qiping have been members of the board of directors of Honghua International.

Hongtian Company

Hongtian Company was established in the PRC on June 6, 2001, and has conducted the principal activities of manufacturing and sales of drilling rigs.

Below is a summary of the management continuity of Hongtian Company during the Track Record Period.

As of August 22, 2006

Zhang Cong
(Chairman)

Zeng Xianglong

Qu Xiaolan

As of December 8, 2006

Zhang Cong
(Chairman)

Liu Zhi

Wang Jiangyang

As of the Latest Practicable Date

Zhang Cong
(Chairman)

Liu Zhi

Wang Jiangyang

As of August 22, 2006, the date of completion of the acquisition of 80% equity interest of Hongtian Company by Honghua Company, the board of directors of Hongtian Company consisted of Zhang Cong, Zeng Xianglong and Qu Xiaolan, all executive directors.

On December 8, 2006, shareholders' resolutions were passed to approve the resignation of Zeng Xianglong and Qu Xiaolan as executive directors of Hongtian Company, the appointment of Liu Zhi as non-executive director and Wang Jiangyang as executive director. The board of directors of Hongtian Company then consisted of Zhang Cong, and Wang Jiangyang, as executive directors, and Liu Zhi, as non-executive director.

Although Honghua Company did not appoint more directors to control the board of Hongtian Company after the acquisition, we believe that Honghua Company will have sufficient control over Hongtian Company, since the board of directors of Hongtian Company has, in fact, followed the directions and decisions of Honghua Company in operating, managing and running its business.

COMPANY HISTORY AND REORGANIZATION

Honghua America

Honghua America was established in the State of Texas, US, as a limited partnership on October 11, 2004 and converted into a limited liability company on December 19, 2006. It has conducted the principal activities of assembling and selling drilling rigs and various parts and components.

Below is a summary of the management continuity of Honghua America during the Track Record Period.

As of October 11, 2004
(being the first director)

Zhang Mi
(Chairman)

As of the Latest Practicable Date

Zhang Mi
(Chairman)

Since its establishment on October 11, 2004, Zhang Mi has been the sole director of Honghua America.

Lucky Wish

Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005, and has conducted the principal activity of selling drilling rig parts.

Below is a summary of the management continuity of Lucky Wish during the Track Record Period.

As of December 5, 2005
(being the first director)

Liu Zhi

As of the Latest Practicable Date

Liu Zhi

Liu Zhi, a Substantial Shareholder and member of the Concert Group, has been the sole Director of Lucky Wish, since the acquisition of the entire issued share capital of Lucky Wish, on December 5, 2005.

Golden Coast Company

Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006 and has conducted the principal activity of selling drilling rigs and related parts.

There is no board of directors of Golden Coast Company. Pursuant to a board resolution of Honghua International dated March 26, 2006, Ma Limin was appointed general manager of Golden Coast Company, effective from its incorporation on November 28, 2006.

HH Egyptian Company

HH Egyptian Company was incorporated in Egypt with limited liability on April 24, 2007 and has conducted the principal activities of manufacturing and sales of drilling rigs.

COMPANY HISTORY AND REORGANIZATION

Below is a summary of the management continuity of HH Egyptian Company during the Track Record Period.

As of April 26, 2007
(being the first directors)

As of the Latest Practicable Date

Zhang Mi	Zhang Mi
Xu Chuan	Xu Chuan
Liu Zhi	Liu Zhi
Liu Chi	Liu Chi
Mohamed Hamed Abd Alla El Gohary	Mohamed Hamed Abd Alla El Gohary
Akram Hatem Abdalla Mohamed	Akram Hatem Abdalla Mohamed
Ramadan Mahmoud Abdalla Bakry	Ramadan Mahmoud Abdalla Bakry

On April 26, 2007, shareholders' resolutions were passed to approve the appointment of Zhang Mi, Xu Chuan, Liu Zhi, Liu Chi, Mohamed Hamed Abd Alla El Gohary, Akram Hatem Abdalla Mohamed and Ramadan Mahmoud Abdalla Bakry, directors of HH Egyptian Company with immediate effect.

Based on the above facts and circumstances, we believe that the requirement of management continuity, under Listing Rule 8.05(1)(b), has been satisfied. Throughout the Track Record Period and up to the time of the Listing, the same management team, led by the executive directors, being the management team who have had the greatest impact on the trading record results of the Group, have continued to serve on the board of Honghua Company and its key operating subsidiaries.

Ownership Continuity and Control

Listing Rules

Pursuant to Rule 8.05(1) of the Listing Rules, a new applicant must have an adequate trading record under substantially the same management and ownership. Rule 8.05(1)(c) of the Listing Rules requires a new applicant or its group to have "ownership continuity and control for at least the most recent audited financial year".

Honghua Company

Concert Group

On June 19, 2003, for the purpose of better management and operation and stable development of Honghua Company, Zhang Mi, the chairman of Honghua Company (who has been a shareholder of Honghua Company since its establishment) and 22 other individual shareholders, namely, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuétian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo, Liu Lulu, He Guangfu, Zhang Zongyou and Chen Zongliang, being core members of the operational, management or technical personnel of Honghua Company entered into an oral agreement (the "Oral Agreement"), pursuant to which they formed the Concert Group, with the intention of consolidating the control of Honghua Company. Pursuant to the Oral Agreement, the Concert Group agreed to act in concert to control or exercise their voting rights in managing and operating Honghua Company. The Directors have confirmed that all senior members of operational, management or technical personnel who held equity interests in Honghua Company at that time joined as parties to the Oral Agreement. According to King & Wood, our PRC legal advisors, the Oral Agreement was legal, valid and legally enforceable against the members of the Concert Group. The Concert Group in total held an approximately 35.438% equity interest in Honghua Company on June 19, 2003.

COMPANY HISTORY AND REORGANIZATION

With the growth in size and sophistication of Honghua Company, members of the Concert Group recognised the need for the Oral Agreement to be reduced to writing. On October 9, 2005, all members of the Concert Group entered into a written agreement (the “Written Undertaking”) (the Oral Agreement and Writing Undertaking, collectively, the “Acting in Concert Arrangement”), to expressly define the fundamental principles and purposes of the Concert Group, to delineate the consensus building and voting mechanisms of the Concert Group, and to enhance their control of Honghua Company. The Written Undertaking provided that:

- (a) each member of the Concert Group shall use his/her best endeavors to coordinate and consolidate their opinions on the proposed resolutions at shareholders’ meetings and Board meetings:
 - (i) for voting at Board meetings, Zhang Mi, together with two designated directors, namely, Ren Jie and Zhang Xu (the three together being the “Board Representatives”) (who have all been shareholders of Honghua Company since its establishment), shall use their best endeavours to coordinate and formulate the views and opinions of members of the Concert Group, to come up with a unanimous voting decision; and
 - (ii) for voting at shareholders’ meetings, the Board Representatives shall first coordinate and come up with a conclusion on voting among themselves, and when a conclusion is reached, other members of the Concert Group shall use their best endeavours to coordinate and follow the voting decision proposed by the Board Representatives; and
- (b) each member of the Concert Group is entitled to express his/her views or opinions concerning the proposed resolutions, and if (i) approval of the other members of the Concert Group has been obtained, and (ii) the eventual voting result is not adversely affected, then such member of the Concert Group may vote at his/her own discretion.

On May 16, 2007, each of the Board Representatives signed a confirmation letter affirming that they had always complied with the Acting In Concert Arrangement.

In the said confirmation letters, each of Zhang Mi, Ren Jie and Zhang Xu confirmed that:

- (i) pursuant to the Acting In Concert Arrangement, the three Board Representatives would coordinate, consolidate and formulate a consensus conclusion and a voting decision, before submitting any proposed resolution to the shareholders’ meetings of Honghua Company.
- (ii) due to the long-term, close, collaborative relationship of the Board Representatives, they have coordinated and come up with a conclusion on voting on every proposed resolution during the shareholders’ meetings of Honghua Company for the benefit of Honghua Company; and
- (iii) to the best knowledge, information and belief of each of the Board Representatives, each member of the Concert Group has never deviated, or attempted to deviate, from the consensus building and voting mechanism, in a way that would contradict or breach the Acting In Concert Arrangement.

The members of the Concert Group also signed confirmation letters dated May 16, 2007 stating that, since the formation of the Concert Group on June 19, 2003, the Board Representatives have always succeeded in reaching a conclusion on voting on every proposed resolution in the shareholders’ meetings of Honghua Company. To the best knowledge, information and belief of each member of the Concert Group, the Concert Group has never failed to reach a conclusion. In addition, no resolution would be proposed at a shareholders’ meeting, without a conclusion first being reached among the Board Representatives. Once a consensus conclusion was reached and presented to members of the Concert Group, each member of the Concert Group was

COMPANY HISTORY AND REORGANIZATION

obliged to follow the voting decision. A Concert Group member was allowed to express his/her views on proposed resolutions specifically concerning his/her personal interest and vote at his/her own discretion only in cases where he/she satisfies the pre-conditions referred to in (b) above.

All members of the Concert Group have attended regular shareholders' meetings, and the members have reached consensus on key decisions and exercised a unanimous voting pattern on all of the proposed resolutions at the shareholders' meetings of Honghua Company, since the formation of the Concert Group, except for the following two instances.

- (a) on April 1, 2005, Zhang Xu voted on three proposed resolutions concerning (i) a profit distribution proposal for the year 2003 and profit distribution proposal for the year 2004, (ii) an operational plan and investment proposal for the year 2005, and (iii) a financial budget for the year 2005, by signing his name in both "For" and "Against" fields and writing his comments in the "Against" field. Zhang Xu confirmed in his letters dated April 11, 2007, and May 16, 2007 that he had no intention to deviate from the voting direction of the Concert Group. Having first coordinated with the other Board Representatives and reached a consensus voting decision, and then having obtained concurrence of other members of the Concert Group, and knowing that the eventual voting result would not be adversely affected, he wanted to express his personal view on the said proposed resolutions, and he voted in accordance with the Acting In Concert Arrangement;
- (b) on January 7, 2006, recognising that the eventual voting decision proposed by the Board Representatives would not be adversely affected, and having obtained concurrence of other members of the Concert Group, three members of the Concert Group, namely Zuo Huixian, Liu Xuetian (deceased) and Zhou Bing, voted against the proposed resolution concerning an equity repurchase. Zhou Bing and Zuo Huixian in their confirmation letters both dated April 9, 2007 and Liu Xuetian (deceased) in his confirmation letter dated April 11, 2007, confirmed that none of them had any intention to deviate from the voting direction of the Concert Group, and having obtained concurrence of the other members of the Concert Group and knowing that the eventual voting result would not be adversely affected, wanted to express a personal view on the purchase price and voted in accordance with the Acting In Concert Arrangement.

In the above two instances, all the individuals concerned strictly complied with the spirit and the letter of the rules of the Concert Group. Specifically, in each instance:

- (i) there was a consultation and consensus building process before voting;
- (ii) the individuals had obtained the approval of other members of the Concert Group, before expressing their personal views on the proposed resolutions; and
- (iii) it was established in advance that their votes would not adversely affect the eventual voting results.

The voting pattern of shareholders' meetings of Honghua Company since the formation of the Concert Group, indicates that members of the Concert Group have, in fact, always exercised their voting rights in Honghua Company in an agreed and coordinated manner.

The members of the Concert Group confirmed in their letters dated May 16, 2007, that no member had ever deviated or attempted to deviate from the consensus or voting mechanism in a way that would go against or breach the agreement in the Acting In Concert Arrangement. This held true even in the above two instances where members of the Concert Group did not vote in exactly the same way as other members. Such voting still fell within the agreement of the Acting In Concert Arrangement.

Zhang Xu, Zuo Huixin, Liu Xuetian (deceased) and Zhou Bing each confirmed in their respective confirmation letters that whilst they did not vote in exactly the same way as the other members of the Concert Group in these above two instances, they did satisfy the above conditions of the Acting In Concert Arrangement,

COMPANY HISTORY AND REORGANIZATION

and did not attempt to act against the Acting In Concert Arrangement. No member of the Concert Group has ever acted independently without seeking the prior concurrence of the other members of the Concert Group or acted in any way that was detrimental to the consensus building and voting mechanism under the Acting In Concert Arrangement. All members of the Concert Group voted in the same manner on all resolutions proposed at the shareholders' meetings subsequent to January 7, 2006.

The rules of the Concert Group, for the consensus building and voting mechanism set out above, effectively provide an outlet for the public expression by its members of their personal opinions specifically concerning their personal interest, without calling into question the authority or integrity of the Concert Group as a whole. The above two instances are merely instances when members of the Concert Group took advantage of the opportunity provided under this mechanism, to express their personal opinions specifically concerning their personal interest without questioning the legitimacy or purpose of the Concert Group and without jeopardising the general inclination and direction of the Concert Group. In any event, except for these two instances, all other decisions have been made with unanimous consent of all members of the Concert Group and no member of the Concert Group has ever attempted to exercise his or her voting rights independently. Pursuant to the Acting in Concert Arrangement, members of the Concert Group have actively cooperated to obtain and will continue to actively cooperate to consolidate control of Honghua Company through their combined voting rights.

Members of the Concert Group have developed long-term mutual trust and bonding among themselves. Eleven of the twelve founding individual shareholders of Honghua Company belong to the Concert Group, holding an approximately 29.28% equity interest in Honghua Company upon its establishment in December 1997.

COMPANY HISTORY AND REORGANIZATION

Most members of the Concert Group have been core members of the operational, management, or technical personnel of the Group and have built up close and long-term relationships with each other and with the Group companies. Details of the members of the Concert Group, their date of joining the Group and their respective positions within the Group are set out as follows:

Honghua Company

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in Honghua Company</u>
Zhang Mi	December 31, 1997	Chairman and General Manager
Ren Jie	December 31, 1997	Director and Deputy General Manager
Zhang Xu	December 31, 1997	Director and Director of Finance (財務部主任)
Fan Bing	December 31, 1997	Director of Asset and Property Department (資產物業部主任)
Liu Xuetian (deceased)	December 31, 1997	Manager of Engineering Services Department (工程服務公司經理) before he passed away on January 23, 2008
Chen Jun	December 31, 1997	Director of Technical Centre of Research and Development, Chengdu (技術中心成都研發部主任)
Liu Yingguo	December 31, 1997	Senior Technician of Engineering Services (工程服務公司高級技師)
Lu Lan	December 31, 1997	Assistant Director of Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任助理)
Liu Lulu	December 31, 1997	Assistant Director of Technical Centre (技術中心辦公室主任助理)
Shen Dingjian	October, 1998	Assistant Director of Storage and Transport (儲運部主任助理)
Zheng Yong	November 1, 1998	Director of Plant No. 2 (二分廠主任)
Tian Diyong	November 1, 1998	Director of Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任)
Li Hanqiang	November 1, 1998	Chief Engineer of Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任工程師)
Tian Yu	October 31, 1999	Vice head of department in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所副所長)
Liu Zhi	November 16, 2000	Deputy General Manager

Youxin Company

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in Youxin Company</u>
Ren Jie	December 31, 1997	Director

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Honghua International

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in Honghua International</u>
Zhang Mi	December 31, 1997	Chairman
Liu Zhi	November 16, 2000	Director and General Manager
Ren Jie	December 31, 1997	Director
Zuo Huixian	December 31, 1997	Director and Chief Financial Officer (財務負責人)
Liu Xuetian (deceased)	December 31, 1997	Director before he passed away on January 23, 2008
Zhou Bing	October, 1998	Deputy General Manager

Hongtian Company

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in Hongtian Company</u>
Liu Zhi	November 16, 2000	Director
Wang Jiangyang	October 1, 1998	Director and Deputy General Manager
Zuo Huixian	December 31, 1997	Director of Finance Department (財務部主任)

Honghua America

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in Honghua America</u>
Zhang Mi	December 31, 1997	Chairman and Director
Zhang Yanyong	December 31, 1997	President
Ao Pei	November 1, 1998	Treasurer

HH Egyptian Company

<u>Name</u>	<u>Date of joining the Group</u>	<u>Current position in HH Egyptian Company</u>
Zhang Mi	December 31, 1997	Director
Liu Zhi	November 16, 2000	Director

Subsequent to the signing of the Written Undertaking on October 9, 2005, there were three transfers of equity interest in Honghua Company, within the members of the Concert Group.

Zhang Zongyou and Chen Zongliang entered into an equity transfer agreement with Zhang Mi, the Chairman, Executive Director and a core member of the Concert Group, for the transfer of 3.136% and 2.262% equity in Honghua Company, respectively, for a consideration of RMB3,861,739.31 and RMB2,786,135.71. He Guangfu, the mother-in-law of Zheng Yong, entered into an equity transfer agreement with Zheng Yong, for the transfer of a 3.734% equity interest in Honghua Company, for a consideration of RMB784,480.

These equity transfers were completed on February 17, 2006, when Zhang Zongyou, Chen Zongliang and He Guangfu ceased to be shareholders of Honghua Company. Their decision to sell their interests in Honghua

COMPANY HISTORY AND REORGANIZATION

Company was occasioned by their retirement from Honghua Company. As they were no longer employed by Honghua Company, they no longer had any interest in participating in the Concert Group, and therefore, they wished to liquidate their investment. They did so by the sale of their equity interest in Honghua Company to other existing members of the Concert Group.

Notwithstanding the transfer of equity interest within the members of the Concert Group, the overall percentage of equity interest in Honghua Company held by the members of the Concert Group remained unchanged and the transfers in fact resulted in a consolidation of the equity interest in Honghua Company to the core members of the Concert Group. This in turn strengthened the Concert Group's overall control of Honghua Company.

The eight founding members of the Concert Group retained their equity interest in Honghua Company and other than Liu Xuetian who passed away on January 23, 2008, remained its core members. These actions served to emphasize the loyalty of the members of the Concert Group and the close and long-term relationship developed among them for the ten years during which they jointly invested in and developed Honghua Company.

The Board Representatives formed part of the core members of the Concert Group. Given their close bond and long-term relationship, the Board Representatives were able to coordinate, resolve and formulate consensus conclusions and voting decisions in the best interests of Honghua Company.

The summary below shows the shareholding changes in Honghua Company since January 1, 2006, which was the beginning of the most recent audited full financial year of the Company (details of these changes are provided above).

<u>Date</u>	<u>Shareholder</u>	<u>Approximate equity interest</u>
January 1, 2006 (the beginning of the most recent audited full financial year of the Company)	Huasheng Oil Company	16.336%
	Concert Group	38.139%
	14 other shareholders	45.524%, ranging from approximately 0.270% to approximately 5.811%
	Total:	100%
April 26, 2006 (capital reduction and equity repurchases)	Huasheng Oil Company	24.615%
	Concert Group	57.469%
	3 other shareholders	17.917%, ranging from approximately 0.407% to approximately 8.755%
	Total:	100%
June 28, 2006 (capital reduction and equity repurchases)	Concert Group	99.297%
	1 other shareholder	0.703%
	Total :	100%
August 17, 2006 (capital increase)	Concert Group	82.419%
	14 other shareholders	17.581%
	Total:	100%
December 12, 2006 (Upon completion of equity transfers and capital increase)	Asia Harbour	100%

Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. At the time Asia Harbour acquired 100% of the equity interest in Honghua Company from its 34 shareholders (including the Concert Group) in August, 2006, Asia Harbour was wholly-owned by Ally Giant, which in turn was wholly-owned by Ample Chance, which in turn was owned by Ally Smooth, Charm Moral, Beauty Clear, Believe

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Power, Benefit Way and Birdview, all BVI-incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate owners of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by three individuals, Ren Jie, Liu Zhi and Zheng Yong, as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by seven individuals, Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin, as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by nine individuals, Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by thirteen individuals, Liu Xuetian (deceased), Zhou Bing, Di Xiahong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong.

Among these named Shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu.

On October 29, 2007, 12 individual shareholders transferred their entire interests in certain BVI holding companies, to other BVI companies, which in turn are wholly held by the Equity Trustee, as trustee of the family trusts established by the ultimate owners of the BVI companies for their family members. Details are provided in the sub-section entitled “Formation of Asia Harbour as an investment holding company” in this section of the Prospectus. This trust arrangement also means that Liu Xuetian’s death does not affect ownership continuity.

Details of the shareholdings in each of the above BVI companies, and their effective ownership interests in the Company, immediately before the Global Offering, are as follows:

Ally Smooth

Shareholder	Approximate shareholding in Ally Smooth	Approximate effective interest in the Company immediately before Global Offering
Wealth Afflux Limited	100.00%	36.00%
Total:	100.00%	36.00%

Charm Moral

Shareholder	Approximate shareholding in Charm Moral	Approximate effective interest in the Company immediately before Global Offering
Mowbray Worldwide Limited	41.34%	7.89%
Ecotech Enterprises Corporation	29.33%	5.60%
Zheng Yong	29.33%	5.60%
Total:	100.00%	19.09%

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Beauty Clear

Shareholder	Approximate shareholding in Beauty Clear	Approximate effective interest in the Company immediately before Global Offering
Cavendish Global Corporation	22.77%	4.21%
Vast & Fast Corporation	23.63%	4.37%
Wang Jianguang	5.76%	1.07%
Chen Jun	5.10%	0.94%
Otama Company Limited	24.58%	4.55%
Airtech Investments Limited	13.43%	2.49%
Ma Limin	4.73%	0.87%
<i>Sub-total:</i>	<i>42.74%</i>	<i>7.91%</i>
Total:	100.00%	18.51%

Believe Power

Shareholder	Approximate shareholding in Believe Power	Approximate effective interest in the Company immediately before Global Offering
Brondesbury Enterprises Limited . . .	32.72%	4.16%
Zhang Yanyong	29.16%	3.71%
Ao Pei	5.53%	0.70%
Tian Diyong	2.85%	0.36%
Shen Dingjian	2.24%	0.29%
Oriental Starz Limited	12.59%	1.60%
Tech Express Enterprises Inc.	7.55%	0.96%
Chen Zhen	5.66%	0.72%
Tian Daoyun	1.68%	0.21%
Total	100.00%	12.71%

Benefit Way

Shareholder	Approximate shareholding in Benefit Way	Approximate effective interest in the Company immediately before Global Offering
Dobson Global Inc.	35.57%	3.73%
Darius Enterprises Limited	19.36%	2.03%
Lu Lan	6.49%	0.68%
Tian Yu	3.91%	0.41%
Li Hanqiang	3.50%	0.37%
Liu Yingguo	1.52%	0.16%
Liu Lulu	1.22%	0.13%
Di Xiaohong	8.74%	0.92%
Xu Chuan	7.27%	0.76%
Liu Yonghong	6.35%	0.67%
Tang Ying	3.03%	0.32%
Li Ping	1.52%	0.16%
Di Baiwei	1.52%	0.16%
Total	100.00%	10.50%

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Birdview

<u>Shareholder</u>	<u>Approximate shareholding in Birdview</u>	<u>Approximate effective interest in the Company immediately before Global Offering</u>
Yang Hong	100.00%	3.19%
Total	100.00%	3.19%

Except for Birdview, which is wholly-owned by Yang Hong, who in turn owns a minority interest of approximately 3.19% in the Company, members of the Concert Group own or control a majority shareholding in each of the BVI companies (whether held personally, or indirectly through the BVI companies, by Equity Trustee, as trustee of their family trusts). These are 100% in Ally Smooth, 100% in Charm Moral, approximately 57.26% in Beauty Clear, approximately 72.50% in Believe Power, and approximately 71.57% in Benefit Way. These shareholdings consolidate the control of an aggregate of approximately 53.32% shareholding in the Company before completion of the Global Offering. Members of the Concert Group can control the Company, by their control of the BVI companies and the Acting in Concert Arrangement.

Members of the Concert Group entered into the Oral Agreement and the Written Undertaking, on June 19, 2003, and October 9, 2005, respectively to establish the consensus building and voting mechanisms. Pursuant to the Acting in Concert Arrangement, the Concert Group held regular meetings, reached consensus on key decisions, had consistent voting patterns, and acted as a unit in the management and control of Honghua Company, since June 19, 2003.

Except for the Chairman, who has held a 36% equity interest in Honghua Company since August 17, 2006, neither Huasheng Oil Company, nor any individual shareholder of Honghua Company, has held a controlling interest in Honghua Company at any time during the most recent audited full financial year (2006). Huasheng Oil Company has never held a majority shareholding in Honghua Company in 2006. The Directors, having made all reasonable enquiries, save and except for the Concert Group, no group of shareholders in Honghua Company has been formed (formally or otherwise) to control or exercise their voting rights on any proposed resolution in any agreed manner. The Concert Group has been the Controlling Shareholder of Honghua Company at all times since its formation.

As confirmed by the Chairman, Zhang Mi, in his confirmation letter dated May 16, 2007, to his knowledge and belief, since the formation of the Concert Group on June 19, 2003, there has never been (a) a single largest shareholder or single largest group of shareholders (except for the Concert Group) in Honghua Company; (b) the Acting In Concert Arrangement has continued to be operative after he became the single largest shareholder of Honghua Company on June 28, 2006, and the Controlling Shareholder on August 17, 2006; and (c) the Acting In Concert Arrangement will remain in effect after the Reorganization and the Listing. Zhang Mi has further confirmed in the said confirmation letter that he has not exercised or attempted to exercise his voting rights independently, without the concurrence of other members of the Concert Group, since the formation of the Concert Group on June 19, 2003, and has no intention of doing so in the foreseeable future. The Directors have confirmed that the Concert Group has been the controlling shareholder of Honghua Company at all times since its formation.

Pursuant to the Takeovers Code, persons acting in concert comprise persons, who pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control of a company through the acquisition by any of them of voting rights of the company and unless the context otherwise requires, control shall be deemed to mean a holding, or aggregate holdings, of 30% or more of the voting rights of a company, irrespective of whether that holding or holdings gives de facto control.

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Based on the above analysis, we are of the view that the Concert Group would be regarded as acting in concert for the purpose of the Takeovers Code.

Share transfer to Nabors International

On October 17, 2007, pursuant to the Share Transfer Agreement, Ally Giant transferred 18% of the issued share capital in our Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or shares to be issued pursuant to the Listing to Nabors International in consideration of license of the technology granted by Nabors Global to the Company pursuant to the terms and conditions of the Technology License Agreement dated October 17, 2007 made between Nabors Global and the Company and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The share transfer was completed on October 17, 2007.

As a result of the above share transfer, Nabors International became one of our Shareholders holding an aggregate of 18% of the issued share capital of our Company up to immediately before completion of the Global Offering and approximately 13.5% issued shares of our Company immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Ally Giant remained a Shareholder holding approximately 64.7% of our issued share capital up to immediately before completion of the Global Offering and approximately 49% of the issued share capital of our Company immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The transfer of 18% shareholding in our Company will not adversely affect our ownership continuity or the control requirements under Rule 8.05(1)(c) of the Listing Rules. In relation to the lock-up requirement under Rule 10.07 of the Listing Rules, we are of the view that Nabors International would be viewed as a group with Ally Giant after the Listing.

For details of our relationship with Nabors International, please refer to the section entitled “Strategic Investor”.